The New
REPUBLIC
SEPTEMBER 23, 2009 • $4.95

THE NEXT FINANCIAL CRISIS
It's Coming—And We Just Made It Worse
PETER BOONE AND SIMON JOHNSON

WHEN CHINA OWNS YOU . . .
NOAM SCHEIBER

HOW I FOUND KEYNES
RICHARD A. POSNER

THE REAL BANKER BOONDOGGLE
LAURENCE GRAFSTEIN

THE POPE'S BAILOUT PLAN
DAVID NIRENBERG

IS WEALTH A MARK OF VIRTUE?
JONATHAN CHAIT

PLEASE REMAIN CALM
ELIOT SPITZER

Plus:

ROMANCE FOR GROWN-UPS
MARTHA C. NUSSBAUM

OUR IRRELEVANT SUPREME COURT
BARRY FRIEDMAN

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Restoring confidence in our financial system benefits everyone.

Transparency, consistency and tough but fair regulations will protect consumers and restore confidence in the mortgage and financial markets. That is why the mortgage industry has called for passage of MIRA, the Mortgage Improvement and Regulation Act, featuring an empowered new mortgage regulator, backed by strong national consumer protections and licensing standards.

For more information, visit the MIRA Resource Center at
www.mortgagebankers.org/MIRA

MORTGAGE BANKERS ASSOCIATION®
Investing in communities

9342

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE NEW REPUBLIC

A Journal of Politics and the Arts

VOLUME 240 WASHINGTON, SEPTEMBER 23, 2009 NUMBER 4,868

House Cleaning

How quickly they forget. The 2006 midterm election that gave Democrats both chambers of Congress wasn't entirely a vote of confidence in the party's leadership or policy acumen. It was a vote against the Republican Party. In the run-up to the election, Democrats hammered on the failures of the Iraq war and the incompetency of the Bush administration, but one narrative stuck best: corruption. At the time, Republicans were reeling from a raft of scandals—there was Jack Abramoff, Tom DeLay, Duke Cunningham, and naughty instant-messager Mark Foley. In the face of this malfeasance, Nancy Pelosi repeatedly promised to "drain the swamp." The meme took hold: Exit polls from the 2006 races showed that 42 percent of voters listed corruption as their top issue.

Fast forward to 2008. Barack Obama came to Washington promising an end to "politics as usual," meaning, in large part, the town's culture of impunity and its cozy relationship with moneyed interests. So, it is disheartening now to watch scandals brewing around two of the House's most powerful Democrats without the least acknowledgement from either the speaker or the president.

First, there's the probe of House Ways and Means Chairman Charlie Rangel. His scandal seems to snowball with every month. Late August brought the stunning revelation that Rangel failed to note two bank accounts, each containing somewhere in the range of $250,000 and $500,000, on past financial disclosure forms. Add to this the unreported $75,000 in income from a beachfront villa, illegal rent-stabilized apartments, and other problems, and you begin to understand why it is taking the ethics committee so long to sift through all of the complaints. If that weren't bad enough, there's the brazen condescension with which Rangel brushes off the allegations. "I recognize that all of you have an obligation to ask questions," Rangel recently told reporters, "knowing that there's none of you smart enough to frame it in such a way that I'm going to respond." This is the reply of a man who forgot over a half-million dollars worth of his assets!

There is also the matter of John Murtha, currently said to be under investigation by the ethics committee for his ties to a lobbying firm run by a one-time congressional staffer who worked with him. The firm stands accused of creating straw donors for congressional campaigns. Murtha is also connected, by virtue of the millions in earmarks he has used to prop up his district's defense contractors, to a myriad of shady companies—including one run by a convicted drug dealer who allegedly misused federal funds for personal projects. (For a definitive account of these scandals, read Jason Zengerle's "Murthaville" in the September 9 issue.) Like Rangel, Murtha is maddeningly nonchalant about accusations of ethical lapses. "If I'm corrupt," he told the *Pittsburgh Post-Gazette* this spring, "it's because I take care of my district."

Punishing the lawmakers for their flagrant abuses of power would be uncomfortable, but the right thing to do. Pelosi, however, seems content to bury the issue, while praying that nobody pays attention. She has reportedly made the decision to overlook Murtha's alleged misdeeds against the wishes of Majority Leader Steny Hoyer. And, in early September, it was reported that Rangel will maintain chairmanship of the committee that writes tax laws for the nation, in spite of his inability to pay his own taxes.

Are Murtha and Rangel the moral equivalents of, say, Abramoff? Not exactly. But try making that argument to angry voters in this political climate. Headed into the next election, Republicans will try to tie Pelosi and Co. to the financial bailouts. They will portray Democrats as the crowd that will do anything to help its banker friends. So, why compound this political problem by leaving men like Rangel and Murtha in such powerful jobs, where they can be turned into such potent symbols?

It would be naïve to pretend that Pelosi didn't ascend to the speaker's chair by sometimes exploiting the same cronyism she later promised to abandon, or that she hasn't formed deep, personal bonds over the years with these men. But the speaker isn't naïve, either. She needs to strip them both of their chairmanships and make public examples of their bad behavior, to show voters that the Democratic Party doesn't selectively tolerate sleaze—before it's too late. ◆

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

LEE H. HAMILTON

STRENGTHENING CONGRESS

"Lee Hamilton is a truly rare breed. He is a wise man who knows Congress inside out- and can still think constructively about its strengths and weaknesses. His book provides a clear and well-informed view of how the country would benefit from a stronger Congress."

–Janet Hook, *Los Angeles Times*, Washington Bureau

paperback $14.95

INDIANA UNIVERSITY PRESS
INDIANA UNIVERSITY

1-800-842-6796 • *iupress.indiana.edu* • Visit our blog! • *http://iupress.typepad.com*

An Evening with
Sam Tanenhaus
Author of
The Death of Conservatism

In conversation with TNR Editor Franklin Foer

September 9, 2009 | 7:00 p.m.

In his new provocative book, Sam Tanenhaus argues that conservatives today need to understand that the true role of conservatism is not to advance a narrow ideological agenda but to engage in a serious dialogue with liberalism and join with it in upholding "the politics of stability." Tanenhaus will share his thoughts on why he believes there is hope for conservatism.

THE NEW REPUBLIC / SIXTH & I

600 I STREET, NW • WASHINGTON, DC

THE NEW REPUBLIC
Founded 1914

EDITOR-IN-CHIEF *Martin Peretz*
EDITOR *Franklin Foer*
LITERARY EDITOR *Leon Wieseltier*
EXECUTIVE EDITOR *J. Peter Scoblic*
MANAGING EDITOR *Richard Just*
EDITORS/ONLINE
Zvika Krieger, Greg Veis
SENIOR EDITORS
Sarah Blustain, Jonathan Chait, Jonathan Cohn, Michelle Cottle, Michael Crowley, Ruth Franklin, John B. Judis, Adam Kirsch, Christopher Orr, Noam Scheiber, Jason Zengerle
LEGAL AFFAIRS *Jeffrey Rosen*
ASSISTANT MANAGING EDITOR *Seyward Darby*

FILMS *Stanley Kauffmann*
ART *Jed Perl*
MUSIC *David Hajdu*
DANCE *Jennifer Homans*
THEATER *Robert Brustein*
ARCHITECTURE *Sarah Williams Goldhagen*
POETRY EDITOR *C.K. Williams*
SPECIAL CORRESPONDENTS
Thomas B. Edsall, Joshua Kurlantzick, Gabriel Sherman
CONTRIBUTING EDITORS
Peter Beinart, David A. Bell, Paul Berman, Gregg Easterbrook, Jean Bethke Elshtain, Nathan Glazer, Anthony Grafton, David Grann, David Greenberg, Yossi Klein Halevi, Robert Kagan, Lawrence F. Kaplan, Michael Kinsley, Charles Krauthammer, Eli Lake, Ryan Lizza, Jeremy McCarter, John McWhorter, Sherwin B. Nuland, Steven Pinker, David Rieff, Maggie Scarf, Ronald Steel, Alan Taylor, E.V. Thaw, Helen Vendler, Michael Walzer, Sean Wilentz, Alan Wolfe, Robert Wright
CONTRIBUTING ARTISTS
Jack Coughlin, David Cowles, Drew Friedman, Brooks Kraft, Vint Lawrence, David Schorr
ART/DESIGN DIRECTION *Heroun+Co./Christine Car*
EDITORIAL-CORPORATE COORDINATOR *Linda Gerth*
PRODUCTION AND I.T. DIRECTOR *Bruce Steinke*
PRODUCTION MANAGER *Henry Riggs*
ASSISTANT EDITORS
Isaac Chotiner, James Kirchick, Jessica Pavone, Bradford Plumer
ASSISTANT TO THE LITERARY EDITOR *Sophia Lear*
REPORTER-RESEARCHERS
Benjamin Birnbaum, Marin Cogan, Lydia DePillis, Suzy Khimm, Amanda Silverman, Barron YoungSmith, Jesse Zwick
VIDEO REPORTER-PRODUCER *Ben Eisler*
INTERNS/ONLINE
Elise Foley, Noah Kristula-Green
INTERNS/BOOKS AND ARTS
Katherine Flynn, Hillary Kelly

PUBLISHER/CHIEF OPERATING OFFICER *Mike Rancilio*
CHIEF FINANCIAL OFFICER *Allen Chin*
EXECUTIVE DIRECTOR, STRATEGIC MARKETING
Rebecca Grossman-Cohen
ACCOUNTING MANAGER *Jessie Ahn*
ADVERTISING SALES AND MARKETING
EXECUTIVE DIRECTORS
Jenna Golden, 202-508-4442 (jgolden@tnr.com)
Jaime Vasil, 202-508-4482 (jvasil@tnr.com)
ACCOUNT DIRECTOR
Sheila Menn, 202-508-4446 (smenn@tnr.com)
ACCOUNT MANAGER
Lauren Sims, 202-508-4462 (lsims@tnr.com)
ONLINE AD COORDINATOR
Katrina Galsim, 202-508-4465 (kgalsim@tnr.com)

THE NEW REPUBLIC ADVISORY BOARD
Laurence Grafstein (Chairman), William A. Ackman, Michael Alter, Gerry Cardinale, John P. Driscoll, Karen Mueller, Gary Mueller, Eric Schwartz, Charles P. Stevenson Jr.
COUNSEL
Kenneth A. Lefkowitz and Francesca Lisk (Hughes Hubbard & Reed, LLP)

THE NEW REPUBLIC (ISSN 0028-6583), Vol. 240, Number 17, Issue 4,868, September 23, 2009. (Printed in the United States on September 4, 2009.) Published bi-weekly (except for skipped publication dates of April 29, July 29, August 26 and December 16, 2009) at 1331 H Street, NW, Suite 700, Washington, D.C. 20005. Telephone (202) 508-4444. For advertising inquiries, please contact Lauren Sims at (202) 508-4462. Yearly subscriptions, $79.97; foreign, $119.97 (U.S. funds); Canada, $99.97 (U.S. funds). Back issues, $8.00 domestic and $10.00 foreign/Canada (includes postage & handling). © 2009 by TNR II, LLC. Periodicals postage paid at Washington, D.C., and additional mailing offices. Rights and permissions: fax (202) 204-4871. Indexed in Readers' Guide, Media Review Digest. For hard copy reprints, call (202) 508-4444. Microform, Canadian Periodical Index, and CD-ROM are available through ProQuest, 300 N. Zeeb Road, Ann Arbor, MI 48106. Telephone (800) 521-0600. Postmaster: Send changes of address to The New Republic, P.O. Box 420235, Palm Coast, FL 32142-0235. Member, BPA Worldwide. Send letters and unsolicited manuscripts to letters@tnr.com. Poetry submissions must be e-mailed to poetry@tnr.com. **For subscription inquiries or problems call (800) 827-1289 or visit our website at *www.tnr.com*.**

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Contents

September 23, 2009

FINANCIAL ISSUE

The Editors **1** **HOUSE CLEANING** *Time for congressional Dems to take out the garbage.*

TRB

Jonathan Chait **4** **MIDDLE OF NOWHERE** *Splitting a baby is actually a bad thing.*

THE MALL

Barry Friedman **7** *Why the Supreme Court is irrelevant.*

Eliot Spitzer **9** *A plea for financial calm.*

Julia Ioffe **10** *The Jeremiah who has the financial world's ear.*

Jonathan Cohn **12** *No, we can't all get along on health care.*

Mary Cuddehe **16** *The rise of Mexican medical tourism.*

FEATURES

Michael Crowley **19** **FIASCO** *Why is Obama repeating Bush's Iraq mistakes . . . in Afghanistan?*

Laurence Grafstein **22** **THE REAL BANKER BOONDOGGLE**
What the finance industry owes us.

Peter Boone and Simon Johnson **24** **THE NEXT FINANCIAL CRISIS** *It's coming—and we just made it worse.*

Noam Scheiber **28** **PEKING OVER OUR SHOULDER** *Our Chinese shareholders get nosy.*

BOOKS AND THE ARTS

Stanley Kauffmann **33** **FILMS** **DEATH AND DAILINESS** *Inebriated with a myth; following Ozu.*

Richard A. Posner **34** **ESSAY** **HOW I BECAME A KEYNESIAN**
Second thoughts in the middle of a crisis.

Kathleen Winter **38** **POEM** **WRONG SONNET: MULTIPLICITY**

David Nirenberg **39** **BOOKS** **LOVE AND CAPITALISM** ***Caritas in Veritate: On Integral Human Development in Charity and Truth*** *by Pope Benedict XVI*

Martha C. Nussbaum **43** **BOOKS** **THE PASSION FASHION** ***A Vindication of Love: Reclaiming Romance for the Twenty-First Century*** *by Cristina Nehring*

Jonathan Chait **46** **BOOKS** **WEALTHCARE** ***Goddess of the Market: Ayn Rand and the American Right*** *by Jennifer Burns;* ***Ayn Rand and the World She Made*** *by Anne C. Heller*

Kevin Young **50** **POEM** **ROSETTA**

Ruth Franklin **52** **BOOKS** **THINGS COME TOGETHER** ***The Thing Around Your Neck*** *by Chimamanda Ngozi Adichie*

WASHINGTON DIARIST

Leon Wieseltier **56** **AGAINST THE PLANE**

Cover illustration by Doug Fraser

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Middle of Nowhere

Splitting a baby is actually a bad thing.

JONATHAN CHAIT

"I think that often where I am is just in the middle. The middle is often the commonsensical place to be. The notion that one side is right and one side is wrong is generally, as one finds in life, not the case."
—political commentator Cokie Roberts

ROBERTS HAS a great point. The sensible position usually does lie halfway between two extremes. Just look at history. In the 1960s, the country was split between extremists who wanted to deny civil rights to African Americans, and extremists who insisted on completely equal rights everywhere. The dispute caused so much strife and anger because no sensible moderates could be found to stake out the middle ground between these equally radical positions—say, desegregating some institutions but not others, or letting black people vote in every other election.

Or consider the nasty contretemps between Galileo and the Catholic Church. Both sides staked out such unyielding positions on whether the Sun revolved around the Earth or vice versa. A lot of vitriol could have been avoided if each party had agreed to the simple proposition that the two bodies revolve around each other.

OK, so maybe Roberts doesn't have a great point. But she does have an extremely seductive point. The notion that you can determine a sensible position simply by stopping halfway between the Democratic and Republican stances is one of the enduring fallacies of public life. There are few more sought-after labels in American politics than "moderate" or "centrist." They signify an independent thinker, unbound by ideological or partisan dogma.

And, to be sure, ideology and partisanship can corrupt your judgment. A classic example is the debate over global warming. Scientific evidence shows very strongly that carbon-dioxide emissions are raising global temperatures. Yet, because this fact implies the need for some government action to regulate carbon-dioxide emissions, many conservatives persist in disbelieving it. Likewise, many liberals dismissed evidence that conditions in Iraq improved toward the end of the Bush administration.

TRB
From Washington

But taking the middle ground between the two parties is not a way of liberating yourself from dogma. It's simply a way of lashing your own judgment to the prevailing sentiments of the moment. Fifty years ago, the notion that the federal government should cover the cost of health care for all senior citizens was too liberal for even many mainstream Democrats to swallow. These days, even right-wing Republicans embrace it. Meanwhile, universal health care may be a liberal idea now, but, if enacted, it would quickly become uncontroversial. If it fails, it would remain a utopian fantasy, spurned by centrists. To define the middle as the sensible position is to believe that what's sensible can change dramatically with the political winds.

A huge proportion of self-styled "centrist" thought simply boils down to surrendering one's own capacity to make normative judgments about politics and public policy. This tic has been on display throughout the health care debate. Key moderate Democrats have deemed their primary criterion for health care reform to be securing the support of Chuck Grassley, the putatively moderate Republican senator. Meanwhile, Grassley has announced that he won't support reform unless most Republicans in the Senate agree with him. Grassley has explicitly said that the lack of sufficient GOP support would cause him to abandon a bill that even he, Chuck Grassley, deemed acceptable.

Thus, by the transitive property, key Democrats have hitched their own support for health care to the whims of a large bloc of Republicans who lack any formal or informal criteria of their own. Picture the old Thomas Nast cartoon "'Twas Him," with Boss Tweed and his cronies standing in a circle, each avoiding responsibility by pointing a finger at the man next to him.

Of course, the centrists portray their behavior not as unprincipled buck-passing but as an elevated form of civic virtue. "Something as big and important as health care legislation," Grassley has opined, echoing a view that has been repeated by numerous worthies, "should have broad-based support." (I'd argue that 60 Democratic senators, representing 64 percent of the population, count as "broad-based.") Now Grassley is saying that he favors "incremental" reform. But, if it's not going to be big anymore, then why must it be bipartisan?

Ted Kennedy's death has spurred a large number of encomiums to the virtues of compromise and deal-making. But this confuses the *necessity* of compromise with the *desirability* of compromise. "Half a loaf is better than none" is a good argument to make to liberals who might be disappointed with an imperfect final deal. It's not a good argument on behalf of centrists who are themselves forcing liberals to take half a loaf. Senator Kent Conrad spent months insisting liberals should abandon a public option because it couldn't pass. Finally, he admitted that he, too, opposed it.

The fetishization of compromise often overlooks whether such a compromise makes any inherent sense. Not all issues lend themselves to compromise. Joe Lieberman recently piped up that he prefers to take minor steps on health care—such as banning insurance company discrimination against those with preexisting conditions—and forego covering the uninsured.

But, if you forbid insurance companies from discriminating against the sick without bringing healthy people into the risk pool, then healthy people would have no reason to buy insurance. They could just wait until they get sick and take out a policy, and the insurance companies would have to sell them one. Rates would skyrocket, and the whole system would become unaffordable. Some say we should build a bridge across a river. Others say we shouldn't. Joe Lieberman wants to build a bridge halfway across.

Lieberman explained his rationale by reaching for a historical analogy. "I think great changes in our country often have come in steps," he said a couple of weeks ago. "The civil rights movement occurred—changes occurred in steps." Actually, almost all of the civil rights movement's progress happened in one big bang, after decades of stagnation. It also required the Senate to put the needs of the country ahead of its own customs by circumventing the committee that had traditionally bottled up civil rights legislation. There is a lesson here for the present day, though not the one Senate centrists seem to have absorbed. ◆

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

YOUR NEW DOCTOR?

When it comes to health care, what really matters is who decides. Under reform proposals before Congress, government would take over more and more of your health care decisions. Whatever it's called — socialized medicine . . . "co-ops" . . . a public option. . . individual & employer mandates — it's bad medicine.

In a major national survey* 4 out of 5 Americans were concerned that government mandates would:

- **REDUCE HEALTH CARE QUALITY**
- **INCREASE COSTS**
- **LIMIT CHOICES OF DOCTORS**
- **INCREASE THE FEDERAL DEFICIT**

There is a better, uniquely American solution: freedom. Freedom to choose your doctor and health plan. Freedom to spend your health care dollars as you choose. Freedom to make your own medical decisions. Freedom to keep a health plan you are satisfied with.

HEALTH CARE REFORM IS NEEDED. BUT GOVERNMENT MANDATES ARE NOT THE ANSWER.

VISIT HEALTHCARE.CATO.ORG

CATO INSTITUTE

PAID FOR BY THE CATO INSTITUTE
WWW.CATO.ORG

**Washington Post*-ABC News Poll, June 18-21, 2009.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The New Republic presents

WASHINGTON

INFLECTION POINT

Washington & Wall Street in the New Financial System

WALL STREET

The New Republic is pleased to host influential leaders from Washington and Wall Street for an honest examination of our financial system, one year after the Lehman collapse. Join us for a discussion of what went wrong, the solutions offered to date, their successes (and shortcomings), and the rules and roles for key constituencies going forward.

Confirmed speakers include:

Bill Ackman, CEO, Pershing Square Capital Management

David Faber, CNBC

Niall Ferguson, Author and Professor at Harvard University

U.S. Representative Barney Frank (D-MA)

Gary Gensler, Chairman, CFTC

Glenn Hutchins, Co-Founder and Co-Chief Executive, Silver Lake

Christopher Lawrence, Co-Head of Investment Banking, Rothschild

Christina Romer, Chair of the Council of Economic Advisers

Eliot Spitzer, Former Governor of New York

James Stewart, Author, *Den of Thieves*

David Wessel, Washington Deputy Bureau Chief, *Wall Street Journal*, and Author, *In Fed We Trust*

Monday, September 14

Location:
Willard InterContinental Hotel
The Willard Room
1401 Pennsylvania Ave NW
Washington, DC 20004

For more information, please contact:
Lauren Sims | 202.508.4462 | *lsims@tnr.com*

Sponsored by:

ISE
INTERNATIONAL SECURITIES EXCHANGE®

TNR.com

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Mall

Benched

Why the Supreme Court is irrelevant.

The most-watched case of the Supreme Court's last term, which ended in June, invited the justices to hold unconstitutional a key provision of the Voting Rights Act. The law required certain jurisdictions—largely in the Old South—to "pre-clear" any changes in their electoral systems with the Department of Justice. It was intended to prevent states with poor civil rights histories from changing their voting systems in ways that would keep blacks from voting. From the questions asked by the justices at the oral argument, the betting among the cognoscenti was that the Court's five-person conservative majority would strike down the law on the notion that things had changed and federal supervision was no longer necessary.

Instead, in a surprise 8-1 opinion authored by Chief Justice John Roberts, the Court decided that it didn't have to address the constitutional question at all. The Court said the district that brought the suit could simply go to federal court and get permission to "bail out" from the pre-clearance provision. No one but the justices thought this argument held water: The bailout provision they cited applied only to counties and parishes, neither of which the district was. The Court's conservatives had ducked the trouble that invalidating the law would have brought them.

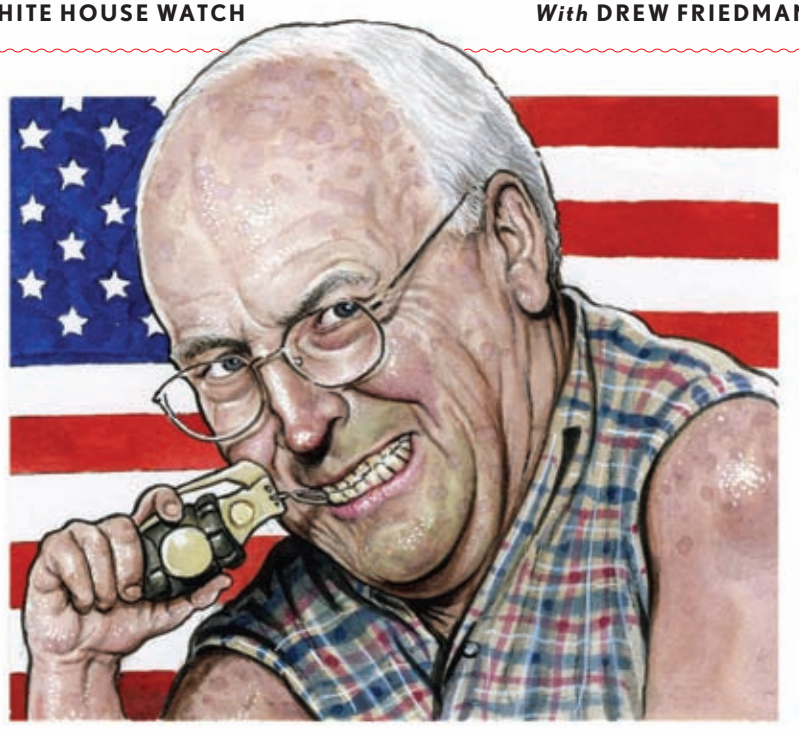
Explaining the departure from the plain language of the law, the chief justice acknowledged, "this is an unusual case." But, in a broader sense, perhaps not. At least since its 1954 decision in *Brown* v. *Board of Education*, desegregating the nation's schools, the Court has weighed in regularly with dramatic pronouncements on some of the most challenging issues the country faces. As late as 2003, the Court handed down mega-decisions on controversial issues such as gay rights and affirmative action. However, major decisions like those are becoming few and far between. The firecracker-turned-fizzle of the voting rights case is an increasingly typical outcome from a Supreme Court that appears to be receding from its central role in American politics.

As the justices prepare to take their seats for the start of the new term on the first Monday of October, it's worth examining why the big news at the end of the last term was what the Court *didn't* do. At the start of the term, Court-watchers were decrying the lack of any big cases; by the end, the story was how the justices ducked even in the ones they had. And, despite some October promise, don't expect a blockbuster term this year either. The situation is structural and unlikely to change anytime soon.

Though the big 2003 term was toward the end of William Rehnquist's tenure as chief justice, the Roberts Court has hardly lain dormant since. That all changed this year. As the last term got under way, Adam Liptak, who covers the Court at *The New York Times*, called the docket a "buffet without entrees." And what's hot on the menu right now? *Arbitration* cases. The Court had three last term, and it has more to come this term. It's particularly revealing that in two of the three arbitration cases decided last term, liberals and conservatives joined hands on both sides of the decision: That's how you know something *isn't* a hot-button.

Since its inception, the Roberts Court has looked to avoid trouble. In the 2006 term, the Court's center actually stopped short of overruling past decisions in at least four big cases, despite heckling from Justices Antonin Scalia and Clarence

WHITE HOUSE WATCH *With* **DREW FRIEDMAN**



Hey Eric Holder: Nobody puts Cheney in the corner.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Thomas on the far right. This approach has prompted some to label Roberts a judicial "minimalist." In the voting rights case itself, the chief justice delivered a stern lecture to Congress about how the provisions of the law "raise serious constitutional questions"—but then he walked away from the brink using that most hoary of judicial cop-outs, the "avoidance canon": "[I]t is a well-established principle governing the prudent exercise of this Court's jurisdiction that normally the Court will not decide a constitutional question if there is some other ground upon which to dispose of a case."

JUST WHY DOES the Court seem to be avoiding bold moves? To begin with, despite their reputation, the justices of the Supreme Court do not sit above politics. Time and again throughout history, when the Court has run afoul of popular politics and the political branches, the justices have paid a price. One need only recall Franklin Roosevelt's 1937 move to pack the Court when it balked repeatedly at his New Deal measures. That was a long time ago, but the successors of those justices have not forgotten the bold public challenge to their authority. When the Rehnquist Court launched its "federalism revolution," Justice Souter sought to warn the majority away, alluding to 1937 when he said, "We know what happened." Controversial from the start, that revolution came to an abrupt halt. Then there was *Planned Parenthood* v. *Casey*, the decision that *didn't* overrule *Roe* v. *Wade*. Why not? It was hard to follow the plurality's convoluted explanation, but looming large was anxiety about the Court's public "legitimacy," as the opinion noted, if the justices were to overturn *Roe* with no reason other than changed membership on the bench.

Consider, then, the situation facing the conservative justices in the voting rights case. The 1965 law had just been reauthorized in 2006, passing the Senate 98-0 and the House with an overwhelming majority. In the interim, the country had elected its first African American president and put Congress in heavily Democratic hands. Had the justices overturned the challenged provision, they could have expected enough criticism that the controversies over, say, flag-burning or school prayer would have looked like a picnic by comparison. It is no accident that the avoidance canon gets pulled out in the salient case. By contrast, this term, the conservative justices eagerly overruled a prior decision protecting criminal suspects represented by counsel from police questioning. No modesty or gradualism here; in fact, the government hadn't even asked for that result. The difference? No one was watching the case.

Under John Roberts, the Supreme Court has lost its mojo.

A looming restraint on the current justices is the risk that, should they read a statute in a conservative way, the Democratic Congress will simply rewrite the law to set matters straight. Is it a coincidence that the first bill Barack Obama signed into law was the Lilly Ledbetter Fair Pay Act of 2009? Lilly Ledbetter was the lead player in *Ledbetter* v. *Goodyear Tire and Rubber Co.*, a 2007 Roberts Court decision that adopted a stingy interpretation of when cases could be brought under the equal-pay provisions of federal law. Congress tried immediately to overturn the decision; when Republicans blocked the effort, it became an issue in the 2008 campaign. Adoption of the Ledbetter law reminds the conservative justices that they are being watched. (At least twice this past term, Justice Ruth Bader Ginsburg overtly appealed to Congress to undo what her conservative colleagues were doing; dissenting in another voting rights case, she pointedly noted, "Today's decision returns the ball to Congress' court.")

A final risk for the conservative Court majority is that the conservative coalition itself seems so weak. This weakness has led to a number of cases in which wayward conservatives voted in ways that gave the Court's liberals the upper hand, as happened in the 2008 decision in *Boumediene* v. *Bush*, when Justice Anthony Kennedy joined the liberals to overturn the Bush administration's plans for trying Guantánamo detainees before military commissions. Kennedy clearly holds the power on the Court when it comes to deciding cases; 23 of the Court's 79 cases this past term were resolved by a 5-4 vote, and, in 18 of them, Kennedy was in the majority. But he is hardly alone in breaking ranks. This past term, for reasons we can only speculate, both Justices Scalia and Thomas helped deliver some surprising liberal victories, particularly in cases involving the question of whether congressional statues preempt state lawmaking.

Even when the conservatives hang together on the outcome, they often insist on going their own ways in writing opinions. The importance of fractured majority opinions often gets lost, but it is key: What the justices say in their opinions is what sets law for the future. And, when it comes to opinion-writing, it takes five united votes to really win.

This past term's screamer was *Federal Communications Commission* v. *Fox Television Stations*, not the most momentous of cases but infinitely revealing

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of the problem. Starting in 1978, and for years after, the FCC would only punish repeated vulgarity, or a single use of "indecent" language, if it was used in a literal (i.e. sexual or excretory) sense. But, when Bono said, during the 2003 Golden Globes, "This is really, really fucking brilliant," the FCC decided that a single, non-literal use of such words was verboten. The questions in *Fox* were whether the FCC had adequately explained the reasons for its switch in policy, and, if so, whether the new policy was consistent with the First Amendment?

In what looked to be a 5-4 conservative win, Chief Justice Roberts upheld the FCC's decision. He found the FCC's explanation sufficient and "decline[d] to address the constitutional questions at this time" because the lower courts had not yet spoken to them. (Sound like a familiar tactic?) But watch as even that weak opinion fizzles away: First, though Justice Thomas joined the majority, he wrote separately to express his view that the 1978 decision was probably wrong, in that it gave the FCC too much power in the first place, signaling the possibility that there may well be five votes to overturn the FCC policy on constitutional grounds. Then, Justice Kennedy (who also joined the majority), wrote his own opinion to "agree with the dissenting opinion of Justice Breyer that the agency must explain why 'it now reject[s] the considerations that led it to adopt the initial policy.'" Whoops. Apparently Kennedy thought the FCC's explanation in *this* case was okay, but, on the broader administrative law issues, the dissenters now prevail, 5-4. Enough wins like this and the conservatives will be in a good position to declare defeat.

Of course, predicting the Court's demise is chancy business—there's always a potential big moment just around the corner. Still, don't expect much in the way of blockbusters from the Roberts Court anytime soon. Stuck between political forces on the left and conservative disarray on the right, the Court will most likely continue to creep rightward with no bold agenda.

BARRY FRIEDMAN

Barry Friedman is the Jacob D. Fuchsberg Professor of Law at New York University School of Law. His book, THE WILL OF THE PEOPLE: HOW PUBLIC OPINION HAS INFLUENCED THE SUPREME COURT AND SHAPED THE MEANING OF THE CONSTITUTION, is being published this month.

Better Regulate Than Never

A plea for financial calm.

THE NATIONAL ideological tilt has shifted fast, away from libertarianism and toward broad support for interventions like the new federal "pay czar," who will oversee banker compensation for bailout recipients. Such a sudden and dramatic reversal suggests that ideology has not been moored to steady principles. Instead, we have grasped too quickly at ephemeral data points and permitted our worldview to be shaped by panic. In this haze of hyperbole, we have an obligation to discern the more modulated truth. Indeed, if we now quickly move from lax regulatory enforcement to heavy-handed bureaucratization of our economy, we will be just as lost a decade from now as we are today.

To understand the shape of our response to the crisis, we must understand the crisis itself. We have experienced *a* failure of capitalism—not *the* failure of capitalism. We know markets are still the best way to allocate resources and to set prices and wages. But the first and essential corollary to any theory of markets should hold that they are fragile and must be protected. No matter how frequently large swaths of the world loudly shout, "We love the market!," virtually nobody does. In the absence of rigorous enforcement of rules, market players seek monopoly power and unfair advantages; they take risks at the undisclosed expense of others, or violate fiduciary duty. None of this means these actors are "evil" or "immoral." But their actions demonstrate that self-interest, unbridled by enforcement of rules, will destroy the very market so many people so ostentatiously claim to adore.

So, we can now dispose of that old canard that self-regulation preserves the integrity of markets. There is essentially no evidence that any self-regulatory entity—from the Securities Industry Association to the New York Stock Exchange—ever revealed or resolved a single structural flaw in the market place. Rather, they papered over and rationalized away all the bad behavior they witnessed.

BUT THERE WAS supposed to be another group designed and empowered to root out malfeasance and protect the commonweal: a large cadre of government regulators. There's a widespread assumption that these regulators

The Preacher and the Politician

Jeremiah Wright, Barack Obama, and Race in America

CLARENCE E. WALKER *and* GREGORY D. SMITHERS

"*The Preacher and the Politician* is a timely and provocative book. Clearly written in accessible language, it offers general readers and specialists alike a means to understand the context of the 2008 election and the pervasive complexities of America's legacy of race and racism."—WALLACE BEST, Princeton University, author of *Passionately Human, No Less Divine*

The book includes Barack Obama's now famous speech on race, "A More Perfect Union."

$22.95 cloth

Garbage In, Garbage Out

Solving the Problems with Long-Distance Trash Transport

VIVIAN E. THOMSON

"This topic is of immense importance. . . . *Garbage In, Garbage Out* is original and is a powerful contribution to the field of environmental policy. Thomson demonstrates convincingly that the problem of solid waste management is far more complex and serious than most would conceive."—JOHN WARGO, Yale University, author of *Green Intelligence: Creating Environments That Protect Human Health*

$49.50 cloth, $21.50 paper

UNIVERSITY OF VIRGINIA PRESS
800-831-3406
www.upress.virginia.edu

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

were improperly armed to adequately protect the public, without sufficient statutory firepower or resources. That, of course, is supposedly being corrected in a wave of reform. Since the crisis broke, we have been treated to a vast array of proposals that remake government organization charts and create agencies with new names. This renovation, however, doesn't begin to solve our regulatory problems.

The truth is that multiple existing agencies already have, as part of their core responsibility and legal authority, the obligation to protect consumers and oversee financial markets. Take the Fed's failure in addressing the issue of excessive leverage, which posed a "systemic risk"; or the Securities and Exchange Commission's inaction while blatant abuses stared it in the face. The regulatory failures of the past decade were in large part failures of will and ideology, not power.

Our market has been—and will continue to be—undermined by regulators who are intellectually or ideologically unwilling to confront powerful market players. Too many of our regulators have been tarnished by the culture of Washington, where the constant movement between government and the private sector has created a fear of disrupting the status quo. It is an environment where stringent enforcement—the very type we needed—jeopardizes future confirmations, alienates potential clients, and engenders social ire. This cozy world isn't exactly corrupt. Rather, it perpetuates an insidious process of socializing the regulators and the regulated alike. Everyone emerges accepting a way of doing business that ultimately fails the public and the economy. Groupthink has prevailed, leading to an ideological conformity that forecloses challenges and alternative theories.

Effective regulation requires a more intellectually nimble regulator—a regulator that won't be duped by all the cosmetic changes offered by firms. After all, trading vehicles will be renamed, leveraged assets will look slightly different, but the underlying issues that jeopardize the economy will remain the same: excess debt, leverage, and lack of integrity.

The answer is only partly to place constraints on the ability of people to rotate back and forth between the public and private sectors—to jam up the "revolving door." The deeper answer requires asking the tough question of regulators: So what did you do about it? This is a question that must be asked by Congress. And there are similarly tough questions that must be asked of everyone hired at these agencies in the future—questions that help identify contrarians and independent minds. This is a metric that is tougher to measure than the quality of a law school attended or the rank one attained in a corporation, but it is vastly more important.

As we emerge from the crisis, there will be a temptation to overlearn lessons. The old system socialized risk and privatized gain. In our rush to reverse the damages wrought by this imbalance, there are many proposals (some of them already implemented) that bureaucratize decision-making and sharply limit private gain. There's the application of Sarbanes-Oxley to venture-capital firms, which has been neither effective nor useful, and has perhaps inhibited capital flows. And we have already added a federal "pay czar" to determine compensation for bailed-out bankers.

But, once again, we're missing the opportunity. Instead of adding bureaucracy, we should be using the government to help invigorate shareholders to police companies. They should be empowered to control executive compensation, eliminating all the conflicts that now encumber those decisions.

Shareholders, like all stakeholders, will make a better determination about the use of their capital than bureaucrats who don't ever suffer the downside of a bad investment. We need to facilitate opportunities for shareholders to actually participate in key decisions, and to deny those whose interests are not aligned from hijacking them. Strangely, we've heard a lot about executives and bureaucrats in this moment of reform. But shareholders, a force integral to the integrity and vitality of markets, have largely been left out of the discussion. We need them now more than ever.

Eliot Spitzer

Eliot Spitzer is the former governor of New York.

Call of the Wolf

The Jeremiah who has the financial world's ear.

Long before Martin Wolf became the chief economics columnist for the *Financial Times*, he wrote the newspaper letters—lots and lots of letters. It was the early 1980s, the height of the Thatcher era, and Wolf was running research at a think tank in London that was sympathetic to the government's pro-trade agenda. The *FT*'s letters section became the ideal place to take to task all those who would stand in the way of the first waves of globalization.

With a British gentleman's cutting subtlety, Wolf parried with other letter writers over everything from tariffs to agricultural subsidies to the German textile industry. He assailed the arguments of a Mr. Mitchell as "'codswollop' raised to a high power." Taking apart the logic of one Mr. Calvert, Wolf quoted nineteenth-century French economist Frédéric Bastiat: "Absurdity is the limit of inconsistency." Arguing with a Mr. Smith about the oil shock of 1983, Wolf's didactic style was on full display:

> How does Mr Smith reach his conclusion? The unstated argument appears to go as follows: in order to prove the economic optimality of competitive general equilibrium, one needs to assume a full range of contingent and future markets. A full range of such markets does not exist. Consequently, the actual equilibrium is not optimal. Centralised co-ordinating agencies might, therefore, improve on the market. The actions of the Japanese and other governments are generally held to improve on the workings of the market. Accordingly, co-ordinating action by the British Government would improve on the market.
>
> When stated in the above way, the argument looks a little silly.

Today, Martin Wolf has moved on to bigger targets than Mr. Smith. Hired as an editorial writer by the *FT* in 1987, he is arguably the most widely trusted pundit of the current economic crisis. Consider the people who count themselves fans of his column. Larry Summers: "He is probably the most deeply thoughtful and professionally informed economic journalist in the world at this point." Harvard economist Kenneth Rogoff: "He really is the premier financial and economics writer in the world." Mohamed El Erian, CEO of PIMCO, the world's largest bond investor: "He is, by far, the most influential economic columnist out there. His columns are eagerly anticipated."

Knowing that Wolf is widely read and highly esteemed, major players in the economic world court his approval. The day after Treasury Secretary Timothy Geithner announced details of the Public-Private Investment Program, he called his

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

old friend Wolf, who he knew was working on his Wednesday column. Geithner wanted to explain—and defend—the initiative. Wolf listened politely and, the following day, slammed the program as the "vulture fund relief scheme."

"You cannot measure influence, but you can feel influence," says University of Chicago economist Raghuram Rajan. "And I think he has it." What makes this influence so fascinating is that, more than two decades after he became a full-time journalist, Wolf's columns resemble nothing so much as his frantic, dense, cutting letters to the editor. They are learned, baroque, and quite frequently terrifying.

The Financial Times*'s Martin Wolf has a genius for scaring the hell out of you.*

Wolf was born in 1946 in London. His father Edmund had been a playwright in Austria but managed to slip out of the country before the Holocaust wiped away most of his family. In London, he met Martin's mother, a Jewish refugee from Holland whose family had also been killed. Growing up in the shadow of World War II and the Holocaust, Wolf was wary of anything outside the reasonable center. "It made me extremely suspicious of political extremism, on both the left and the right, a strong believer in democratic freedoms, which was very much my father's position," he told me.

A vivid memory of doom may have also driven Wolf into economics, which he sees as the underpinning of everything that can possibly go wrong. He was, he says, "very, very much formed by the sense that the catastrophe that befell my parents' generation was in large part because of the Great Depression, which itself was the result of huge economic policy blunders." References to the 1930s pervade his writing.

After studying economics at Oxford (where he identified as a social democrat), Wolf got a job in 1971 at the World Bank, which was then under the stewardship of Robert McNamara, the disgraced former U.S. defense secretary. McNamara, in Wolf's telling, was a forceful leader. "He was utterly and completely in control of the institution, of the facts, of the objectives that he wanted to achieve," Wolf recalls. "And that made him quite impressive—I mean *staggeringly* impressive."

According to Wolf, McNamara had a very firm idea of how to fix poverty in the developing world: Poor countries were poor because they didn't have enough capital. Ergo, raising investment levels was the key to creating prosperity. To achieve this goal, McNamara pushed for loaning more and more money to developing countries, leading them, eventually, into massive debt crises in the 1980s.

Wolf was disgusted enough by these policies that he began to move to the right, and he eventually left the Bank in 1981. He says the experience taught him that "it's really, really, really hard for large institutions to make intelligent decisions." Wolf swore he'd never work in such a bureaucracy again.

In 1987, after working for six years at a pro-free-trade think tank in London, Wolf was courted by Sir Geoffrey Owen, then editor of the *Financial Times*. Wolf had written a few stories—and more than a few letters—for the paper, and Owen wanted to take him on as his chief economics editorial writer. Wolf, who shared the *FT*'s basic free-trade stance (although he was to the right of the paper), accepted. For nine years, he wrote with no byline, occasionally advocating stances he did not espouse, which rankled after his experience at the World Bank. Finally, in 1996, Wolf was given his own column on international economics.

It has been 28 years since Wolf left the World Bank, but he still sees his journalistic work as an antidote to the top-down style of decision-making he witnessed there. Now, he sees the same destructive behavior in the private sector. "If you go from Chuck Prince"—the former CEO of Citigroup—"to the people who were actually designing these securitized assets or, even more, the people who are making the subprime loans, you've probably got ten or eleven layers … that the people have at the bottom to get all the way to the top—filtered through all the people in between, whose job it is to give the impression to the people at the top that everything's going smoothly. Because that, of course, is what they're being rewarded on," he says. "So, if there are minions at the bottom … saying, 'Well, actually, this isn't making any sense,' if there were people like that, this information simply wouldn't get up through the machine." His job, he says, is to give voice to those minions who are unable to send their criticisms up the chain of command.

Moreover, the current crisis has reawakened Wolf's dread of the 1920s and '30s. "I never expected, I have to say, to be as close to those experiences again in my lifetime," he explains somberly.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

As a result, he has swung back toward Keynes—closer to his ideological roots—and he frequently criticizes the Obama administration from the left.

To understand Wolf's influence, one must first understand his audience. They are dedicated *Financial Times* readers, and *Financial Times* readers are some of the top earners, spenders, and decision-makers in the world. "I'm writing for the people who are doing these things, who are running these things, both governmental and politicians and financiers," he told me while vacationing in Liguria, Italy, where he has spent summers since childhood. (His family has a house there, and, every August, Wolf returns. "It's an important break," he says. "Unlike Americans, I believe in long breaks for reading and thinking. I don't understand the American culture of one-and-a-half or two weeks of holiday a year at the maximum.")

Befitting someone who writes for insiders, his style is brazenly dense. His *FT* columns come with footnotes and charts. Moisés Naím, the editor of *Foreign Policy*, recalls working with Wolf on a cover story on the coming market crash in 2000. "He makes no concessions to the reader," Naím says. "There was a bit of back and forth about what he felt was 'self-evident.'" His prose, even to the educated layman, can be hard to crack. "He's writing for very well-informed readers," says *New York Times* columnist Paul Krugman. "Obviously, I have a similar space, and I don't write things that look like what Martin writes because I think I'll lose too many of my readers."

Wolf is staggeringly well-connected within the elite circles he is writing for. El Erian was a Wolf protégé, as was current British education minister Ed Balls. Wolf's circle of friends and acquaintances includes the likes of Indian Prime Minister Manmohan Singh and Mervyn King, governor of the Bank of England. "I don't know if there's any significant central banker I don't know," he told me with a flat matter-of-factness. But part of his appeal is that he doesn't hesitate to criticize friends. He is close with Geithner and Summers yet has repeatedly attacked their policies for not going far enough.

His fans cite his logical rigor, a faculty he loves to engage face to face. In *FT* editorial meetings, he's known for packaging an extreme position in provocative language in order to make others clarify their own stance. "He starts by summarizing your argument, and, two minutes in, he's trashed your argument," says *FT* business columnist John Gapper, who used to be Wolf's editor. "And that's when you realize he's only just getting going." *FT* editor Lionel Barber says he stands up to Wolf, whom he calls "Two Brains," "once every five years."

It is these qualities—the deep erudition, the sense of proximity to the temples of power—that have made his columns about the financial crisis so impossible to ignore. When the bolts of rhetorical thunder emerge from his dense cloud of prose, you take notice. A typical column warns that we risk nothing short of "the mother of all meltdowns" or the end of "liberal trade." Passages offer ominous predictions:

> Yet the idea that a quick recession would purge the world of past excesses is ludicrous. The danger is, instead, of a slump, as a mountain of private debt … topples over into mass bankruptcy. The downward spiral would begin with further decay of financial systems and proceed via pervasive mistrust, the vanishing of credit, closure of vast numbers of businesses, soaring unemployment, tumbling commodity prices, cascading declines in asset prices and soaring repossession. … This would be a recipe not for a revival of 19th century laissez faire, but for xenophobia, nationalism and revolution.

By the time you put down a Wolf piece during the worst of the crisis, you could have been forgiven for thinking that we were hurtling toward a disaster of even more cataclysmic proportions. Although he may have written his columns with an audience of technocrats in mind, his jeremiads—clearly informed by Wolf's fear of repeating the Great Depression—broke through to a much wider audience. (They constantly rank among the most read on the *FT*'s website, and even Matt Drudge, the least academic man in the world, links to them.) What's more, it is their very denseness that commands attention. To the broader public, suffering from grave confusion and outright panic, his pieces may be frightening, but their learnedness also provides a sense of odd comfort: Here is a solid view of the path ahead.

When columnists are too close to power that's usually cause for concern. The classic example was Joseph Alsop, who used his op-eds to fight bureaucratic battles on behalf of his high-ranking friends. But Wolf's readers feel a sense of gratitude for his closeness to the world's central bankers and finance ministers and other denizens of the Davos set. Because when he zings them, or pushes the panic button, at the very least, we know they are listening.

Julia Ioffe

Julia Ioffe is a writer in New York City.

Party Is Such Sweet Sorrow

No, we can't all get along on health care.

Even before Ted Kennedy lost his battle with brain cancer late last month, Republicans were suggesting that health care reform had suffered in his absence—not because Kennedy was so devoted to the cause, but because he would have cut a deal with the Republicans. "In every case, he fought as hard as he could … but, when he recognized that he couldn't get everything he wanted, he could get a good bill by working with the other side," Utah Republican Senator Orrin Hatch said on ABC's "This Week." "If he was here, I don't think we'd be in the mess we're in right now."

✳ *Explore Jonathan Cohn's blog for more on the politics of health care.* **THE TREATMENT** *at www.tnr.com*

It's true that Kennedy was the consummate dealmaker. His determination to reach across the aisle reflected, in no small part, his regret over one time he didn't—during the 1970s, when President Richard Nixon put forward a health care reform proposal that Kennedy and his liberal allies rejected as too timid. But the wistfulness for Kennedy's dealmaking and, more broadly, his bipartisanship, overlooks a key detail. The deal on health care that almost came together in 1973—like the deals Kennedy later made on No Child Left Behind, immigration reform, and the Medicare drug benefit—involved Republicans who were willing to be part of the reform enterprise. Such Republicans are almost impossible to find today.

During the past year, Republicans have frequently said they want to work with Democrats. But the real story of the last few months is how unserious those pledges turned out to be. Although you wouldn't know it from their rhetoric or the media coverage, there are not one but two ostensibly bipartisan proposals out there right now. Either of them could be the template for successful reform if even a few Republicans started

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

LOOKING FOR A LAWYER *who spends more time thinking about you?*

At Crowell & Moring, our focus is you, not us.

We return phone calls. Instead of just talking, we listen. Our client relationships are built on mutual respect, trust and success—not on inflated egos. In every matter, you define victory, not us. It's an approach that's won over Fortune 500 clients including DuPont, Alcoa and AT&T.

crowell moring *experience. creativity. results.*

www.crowell.com Washington, DC California New York London Brussels

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Ted Kennedy knew there were health care deals to be had, but no takers.

pushing them seriously. But, even the ostensibly reasonable Republican senators whom Democrats have tried to engage—Mike Enzi, Charles Grassley, and Hatch—just aren't interested. And it appears they haven't been for a while.

Nixon's old proposal—which would have covered nearly all Americans, mostly through private insurance—is a reminder that Republicans haven't always opposed health care reform, sight unseen. And, as recently as a few months ago, at least a handful of Republicans were signaling that they bought into the basic goals of health care reform: expanding insurance coverage substantially, improving the quality of medical care, and curbing the growth in health care expenses. "We're going to make it," Grassley said on CBS's "Face the Nation" in July. "We'll get this done because we're doing it in a bipartisan way."

The challenge, or so it seemed, was finding a way to accomplish these goals that meshed with conservative sensibilities. In practical terms, that meant relying heavily on private insurance to bring coverage to the uninsured, much as Nixon had proposed, rather than relying heavily on expanded—or even newly created—public insurance programs. It also meant minimizing taxes on the rich and fostering a sense of individual responsibility.

Earlier this year, a group of former Senate majority leaders—Republicans Howard Baker and Bob Dole, along with Democrats Tom Daschle and George Mitchell—showed how that might be accomplished. After negotiating with each other for more than a year, as if they were still in office and representing their two parties, the group (minus Mitchell, who had since joined the administration) unveiled a fully fledged health care reform proposal in June. They released it through the Bipartisan Policy Center, a think tank they'd establish precisely to advance proposals like these. And, at least on paper, it looked like the kind of scheme members of both parties could support in good conscience.

The Center's proposal had the same basic architecture as the plan Obama put forward in his presidential campaign and that congressional committees have been debating this year. Everybody would have to get insurance; in exchange, government would make sure everybody could get insurance, by subsidizing the cost for those who needed financial assistance—and by creating a marketplace in which people without access to employer policies could get coverage regardless of preexisting conditions.

Still, it was hardly everything Obama or the Democrats would have wanted. Instead of a single public-insurance plan into which people could enroll, the Center's proposal would have given states the option of creating independent insurance plans to compete with private insurers; it allowed the federal government to step in with its own plan only if, after five years, there was evidence the system needed more competition. This was an effort to satisfy conservatives, who believe a public plan might drive private insurers out of business and, ultimately, starve doctors and hospitals of necessary resources by underpaying them.

The Center's plan included other compromises as well. It expanded Medicaid eligibility to the poverty line but not beyond, while the House bill, in line with liberal expectations, raised eligibility to include people making one-third more than the poverty line. This change helped achieve another major goal: holding down the overall price of reform. All told, the Center's plan called for $1.2 trillion in new government spending—a significant sum, to be sure, but less than initial Democratic proposals, which, according to most outside experts, were likely to cost $1.5 trillion or more. And, again consistent with conservative thinking, the Center did not simply impose new taxes on the wealthy, as both Obama and, later, the House Democrats would. Instead, the Center's proposal would have paid for reform by capping the exclusion on group health benefits, then extracting savings from Medicare and Medicaid. It was, in short, a proposal in which both sides gave ground. "I had a lot of trouble with mandates, just as Tom had trouble with the public plan," Dole said. "But, if we can't compromise, how are you ever going to get a bill passed?"

But Baker and Dole's endorsement didn't move the Republican caucus in Congress, which barely acknowledged the Center's proposal. Instead, the Republican leadership continued to oppose Democratic proposals outright, while those few members willing to talk about it kept pressing for plans that would be even less generous—a lot less generous—than what the Center had put forward. Enzi, in particular, wanted to minimize the financial assistance going to people buying insurance through the exchanges. Democrats had hoped to make subsidies available to people making up to four times the poverty line. Enzi proposed making subsidies available only to people making two-and-a-half times the poverty line—or around $55,000 per year for a family of four. As the Center on Budget and Policy Priorities has concluded, "substantial numbers of people with incomes modestly above 300 percent of the poverty line could face difficulty paying the full price of coverage. … This could leave the family short of funds for other expenses such as housing and child care." And the $1.2 trillion price tag, the one lower than many Democrats wanted? Republicans have been saying reform can't cost more than $1 trillion—and should probably cost a lot less.

FABIAN/SIPA PRESS

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Ruins of the Asylum

From the mid-nineteenth to the early twentieth century, nearly 300 state mental hospitals were built. They were testaments to designers' faith in the healing power of stately architecture, fresh air, and pastoral landscapes. They were at once beautiful and terrifying, and, by the 1990s, they had basically emptied. Architect and photographer Christopher Payne has compiled haunting images of these edifices' ruins in his forthcoming book *Asylum: Inside the Closed World of State Mental Hospitals* (MIT Press). These shots are from hospitals in New Jersey (top) and New York (bottom) *—Jesse Zwick*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Of course, the Center's proposal wasn't a real bill. But the Healthy Americans Act—the bill that Ron Wyden, the Democratic Senator from Oregon, unveiled and began pushing back in late 2006—is real. The Healthy Americans Act is a completely different kind of reform: It would get rid of employer-sponsored insurance as it now exists and move to a system in which virtually everybody would buy coverage on their own—again, through some sort of structured marketplace in which the federal government set standards for benefits, made sure they were available to everybody, and provided subsidies for people who needed them. Although Wyden is a liberal Democrat, he crafted the proposal with Republicans in mind—seeking to reach what he called "a philosophical truce" between left and right. It is still the only proposal on the table that pays for itself within a few years, then starts to show actual savings after that. It would provide coverage entirely through private insurance, eventually folding in parts of Medicaid. And it would do all of this without raising taxes on the wealthy, at least not directly. Money for the program would come primarily from eliminating the existing tax exclusion on group health insurance, so that there would be no new taxes targeting the wealthy explicitly.

It was, in many ways, a conservative proposal, as the opposition of prominent liberal groups attested. And Wyden scored an early victory when he secured, as a co-sponsor, Bob Bennett of Utah—a Republican senator with solid conservative bona fides. "It's the right time," Bennett said. "[W]e have a situation in Congress that would lead both parties to want to have a solution." Over the next two years, a handful of additional Republicans agreed to co-sponsor Wyden-Bennett or its mirror version in the House. If Congress was to pass a bipartisan bill, surely, this was the chance.

But, presented with that opportunity, Republicans refused it. With one or two exceptions, even the legislators co-sponsoring the measure did not in fact seem to support it. When asked about it, they would inevitably refuse to endorse the particulars and call the proposal—as a spokesperson for GOP Representative Mike Castle did in an interview—"a great conversation starter." And, while Bennett still seems committed to the bill, it's hard to know if that will last. The Club for Growth—a conservative group—began running advertisements in Utah, attacking Bennett for his advocacy of the bill. Bennett, in turn, has recently vowed to "kill" Obamacare, which suggests that combining the bills to produce a true compromise—a possibility others have certainly entertained—is not an option in his mind.

The White House and its allies seem to grasp that Republicans (except for Maine Senator Olympia Snowe) just aren't interested in promoting health care reform anymore. After Enzi gave a radio address in which he attacked Democratic health care plans, White House Press Secretary Robert Gibbs told reporters, "I think Senator Enzi's clearly turned over his cards on bipartisanship and decided that it's time to walk away from the table." Gibbs didn't say anything about Grassley. But, after a string of comments attacking Democrats and the revelation that Grassley is now sending fund-raising letters asking for support so he can help defeat the Democratic health care plan, the administration has apparently given up on him, as well.

And yet, negotiations will go on, between liberals and those who remain at the table—conservative Democrats, who have their own qualms about the direction reform is headed. One issue is how much to spend on reform—a question that depends on Democrats' willingness to find new revenue, in the form of taxes or savings elsewhere, and on which the plan's ultimate generosity will depend. Another issue, naturally, is the public plan, which more conservative Democrats continue to talk down. Still, these are more differences of degree than of kind. At the end of the day, centrist Democrats may want less-ambitious legislation, but they still want legislation. Given their preferences, it wouldn't be at all surprising if they ended up endorsing—and, finally, enacting—something like the measure Baker and Dole embraced.

Which wouldn't be such a bad thing. The Baker-Dole-Daschle proposal still isn't everything liberal Democrats want. But it's far more ambitious than anything than the Enzis of the world would tolerate—and a measure that would accomplish much, if not all, of what liberal Democrats can realistically hope to achieve in the prevailing political environment. In effect, conservative Democrats now occupy the political space that moderate Republicans once did, years ago—a place on the ideological spectrum that tends to look upon government more skeptically, perhaps, but still recognizes its place as a protector of economic security. These are the people with whom Ted Kennedy used to make deals—and with whom liberals can still find common ground, even as they wish today's Republicans good riddance.

Jonathan Cohn

Patients Without Borders

The rise of Mexican medical tourism.

Ciudad Juárez, Mexico, is a bleak, dusty factory town across the border from El Paso, Texas. Long a nexus for drug runners vying for control of smuggling routes, it has earned a reputation for gunfights, abductions, and murdered women. In recent weeks, the violence fueled by drug cartels has spiked, and not for the first time. There have been beheadings, public shootouts, and murders of dealers, police, and bystanders. The U.S. Consulate has issued a travel advisory for the area. And, in the midst of all this, Juárez has a message for you: Looking for a good deal on heart surgery?

The city of 1.6 million is one of a few Mexican border towns quietly promoting state-of-the-art hospitals that cater to international patients—Juárez has five such facilities—and betting that refugees from the tattered U.S. health care system will come. On paper, at least, the numbers look promising: According to a 2008 study by Deloitte LLP, 750,000 Americans traveled abroad for medical care in 2007. That number is expected to reach six million by 2010.

This past spring, around the time Mexican President Felipe Calderón sent thousands of troops to Juárez in an attempt to quell a surge in violence, I met with Alvaro Navarro. The director of economic development for Juárez, he is the man pushing the city's medical-tourism dreams. Tall, handsome, and seemingly undeterred by the long odds, Navarro works out of an office in one of the city's few modern glass buildings. As he described it to me, the plan was simple: Woo tourists—at last count, Mexico was among the world's top ten destinations—to come for medical procedures and help them arrange sightseeing trips while they are there. He spoke in the sly tone of a man who'd just gotten in on the ground floor of something really huge. "Medical tourism—it's going to be bigger than the *maquila*," he said, referring to the foreign-owned factories that dot Juárez. "The United States is the biggest client," he went on. "Or, should I say, the biggest patient."

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Kidney transplants across the Rio Grande . . . for the latte set.

TREVOR SNAPP/BLOOMBERG NEWS/LANDOV; ANTHONY RUSSO

Navarro escorted me to a conference room to show me what he meant. His assistant, a young, pretty brunette, switched off the lights and guided us through a slideshow. A jumble of PowerPoint charts and graphs compared prices in Mexico with those in the United States and Asia. Mexico fell somewhere in between. A heart-bypass operation that runs $130,000 in the United States would be about $9,000 in India and $25,000 in Mexico. But, add a $1,200 plane ticket, a 30-hour round-trip flight, and the cultural foreignness factor to the mix, and driving to Mexico might just beat flying to Asia. The presentation ended with a preview of Juárez's new but still rudimentary and Spanish-only website, which Navarro said would eventually serve the entire border area.

With millions of dollars in government support and private capital, other Mexican cities—places like Tijuana—are also gearing up to attract patients. The private-public nature of this venture sidesteps what some experts say is a pitfall that developing nations, where millions often don't have access to proper health care, can face. "The last thing that the government wants is to be seen investing in medical tourism, which is health care for [the] rich, while domestically, they are not providing sufficient health care," says Milica Bookman, co-author of *Medical Tourism in Developing Countries* and an economics professor at Saint Joseph's University in Philadelphia. Though Mexico constitutionally guarantees the right to health care, underfunded public health institutions tend to offer substandard care, and many Mexicans can't afford the private alternatives.

To lure American patients, Mexican hospitals are widening their menu of services to include procedures like hip replacements, heart surgeries, and gastric banding. (Americans have traditionally traveled there for bargain dental crowns, tummy tucks, and nose jobs.) They are also working to increase procedural transparency, a key to winning accreditation from the Joint Commission International, the global arm of the organization that accredits U.S. hospitals.

Americans are learning about all of this online, then organizing trips themselves or contracting with medical-tourism brokers. Last December, Sue Nagy was laid off from her job as an office manager. The 47-year-old from Waukegan, Illinois, didn't have insurance to cover a $60,000 cardiac ablation, but a three-year-old start-up, WorldMedAssist, put together a trip to Tijuana for $12,000. "Half of my family were like, 'Good idea,' and the other half were like, 'Are you crazy?' One friend said, 'You can't drink water there; why would you have surgery there?,'" says Nagy, recalling the hospital's "beautiful" terrace where she convalesced and the two-night stay at a luxury hotel that followed. "It all worked out much better than I could've expected," she says. "I got good care."

Nagy was treated at Hospital Angeles, which belongs to Grupo Angeles, the largest private chain in Mexico. When the hospital opened three years ago, 70 percent of its patients were American. Carlos Zavala, the hospital's business development director, told me that, despite a recent drop in numbers, his company had opened an office in San Diego with the express purpose of signing up Latino patients. "We have to go after that market. . . . We are two hours from eight million Mexicans. To us, that's the future," he said. As for the unchecked violence, Zavala wasn't too concerned, calling it isolated: "Mexico has always had drug violence. It's not unknown. Most people that actually have come to Mexico understand—and they do feel safe."

Insurance companies also see an opportunity. Aetna, WellPoint, and other providers have launched pilot programs offering global options. "Two thousand dollars a day goes a whole lot farther in Monterrey than in Michigan," says David Boucher, the president of Companion Global Healthcare, a subsidiary of Blue Cross Blue Shield South Carolina that calls itself a "medical travel facilitator" for individuals and businesses. Boucher says his company has signed up 185 employers since 2007. "I'm not gonna blow smoke, but it's been very consistent," he says. "Three to five years from now, many Americans . . . will have a global health care option."

Whether the Zavalas and Navarros of Mexico get to see their dreams lived out will depend in part on how many of their hospitals can win international accreditation, and also on how effectively they can sell their brand. Of course, the bigger determinant will be whether the violence ever abates and how the country is perceived as a result. Hip replacements at cut-rate prices will only appeal so much if Juárez and other cities can't shake their gangland image.

MARY CUDDEHE

Mary Cuddehe is a writer in Mexico City.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

JOHN GOODMAN/ZUMA PRESS

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Fiasco

Why is Obama repeating Bush's Iraq mistakes . . . in Afghanistan?

MICHAEL CROWLEY

With the Iraq war spinning out of control in mid-2005, retired Marine General James L. Jones spoke with his old friend Peter Pace, the incoming chairman of the Joint Chiefs of Staff. Jones, who is now Barack Obama's national security advisor, had been sounded out for the Joint Chiefs job but demurred. One reason: He felt that civilian leaders in Washington were warping the military planning process. "Military advice is being influenced on a political level," Jones warned Pace, according to Bob Woodward's book *State of Denial*. Jones's warning squared with other reports at the time that U.S. commanders in Iraq felt pressure to keep troop levels low. Faced with a growing Democratic onslaught, the Bush White House was all too determined to pretend that the war was under control.

Four years later, Jones visited U.S. military commanders in Afghanistan. As it happened, Jones was joined on his trip by Woodward, who reported in *The Washington Post* on July 1 that Jones had warned the commanders against requesting more manpower in the wake of President Obama's approval earlier this year of 21,000 more troops. According to Woodward, Jones cautioned that Obama would have a "Whiskey Tango Foxtrot"—or WTF (as in, "What the fuck?")—moment were he to get such a request anytime soon. Jones was even more explicit in an interview with the McClatchy news service. When Obama originally increased troop levels, Jones said, military leaders had agreed that "there would be a year from the time the decision was made before they would ever come back and ask for any more."

Although other officials quickly disavowed Jones's remarks, it was clear that Jones had committed much the same sin that drove his disgust toward the Bushies. "There is pressure being brought to bear on generals," says a congressional aide who closely tracks Afghanistan policy. And, with the top U.S. commander in Afghanistan reportedly gearing up to request tens of thousands more troops this fall, it was an early sign that the Obama administration could fall prey to some of the politically driven mistakes that helped turn the Iraq war into a fiasco. Indeed, that's why recent commentary warning that Afghanistan could be to Obama what Vietnam was to Lyndon B. Johnson—a foreign quagmire that smothers a Democratic president's ambitious social agenda—may miss the point. The real danger for Barack Obama is not that he will follow in the footsteps of LBJ. It is that he will repeat the errors of George W. Bush.

Until early 2007, Bush foolishly tried to limit America's presence in Iraq. His initial approach was defined by the experience of Army General Eric Shinseki, who was publicly rebuked by senior Bush officials after testifying that several hundred thousand men would be necessary to stabilize the country. (Bush ultimately invaded with about 130,000 troops.) In the months that followed the invasion, press leaks indicated that commanders who knew that their forces were overextended were reticent about asking Washington for more boots on the ground. Generals were pressured, usually by Defense Secretary Donald Rumsfeld, to find ways to bring home American forces as quickly as possible.

The administration also exaggerated progress in Iraq, both raising expectations and dashing its credibility. Standing up Iraqi security forces was presented as the path to an American exit well before those forces were anywhere near ready to shoulder the burden. And Bush allowed the Iraq war to become a self-justifying engagement, in which saving American "face" and denying Islamist insurgents a victory became a core rationale for the war effort. Although Bush ultimately reversed course on the most important of these factors when he finally ordered his audacious January 2007 troop surge, his slow recognition of these mistakes probably prolonged and worsened the war.

People involved in Afghanistan policy fret that a similar dynamic could be evolving in the Obama administration. The bluntest among them is Anthony Cordesman, a former aide to John McCain now at the Center for Strategic and International Studies, who advised the recent strategy review conducted by General Stanley McChrystal, the new Afghanistan commander installed by Obama earlier this year. "What frightens me most," Cordesman said at a late-August panel at the Brookings Institution, "is that there is very sharp pressure on General McChrystal and on Ambassador Eikenberry from the White House and the National Security Council not to ask for specific additions in resources when they come back in September or October."

During a secretive trip to Belgium last month, Gates told McChrystal not to ask for new troops in his strategy review.

Cordesman and others have evidence to back up their case. One data point is a mysterious meeting Defense Secretary Robert Gates held with McChrystal in Belgium last month. The trip was oddly secretive—unannounced beforehand and with no reporters in tow. But two sources with ties to the McChrystal team say that Gates specifically told the general, then midway through the 60-day policy review that he completed last week, not to include any troop requests as part of the review. Perhaps not coincidentally, the meeting—which also included Joint Chiefs of Staff Chairman Mike Mullen, CENTCOM chief David Petraeus, and Pentagon undersecretary for policy Michele Flournoy—came just a few days after *The Washington Post* reported that McChrystal was likely to ask for many more troops. Sure enough, last week, McChrystal delivered a review calling for an enhanced focus on counterinsurgency, faster training of Afghan forces, and new tactical objectives—but no specific requests of troops or money.

Some close observers of war policy weren't surprised that Gates wanted to postpone a new troop request. There are signs that Gates is skeptical of a major U.S. escalation in the country.

In July, a U.S. Army corporal in Korengal, Afghanistan covers his ears while firing mortars at nearby Taliban positions.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

As a member of the Iraq Study Group in 2006, Gates supported that panel's conclusion that U.S. combat troops should be withdrawn by early 2008. And, in December, he said he didn't foresee the U.S. troop presence in Afghanistan growing as large as the 160,000-man peak it hit in Iraq. Gates has also fretted about a U.S. footprint that grows so large and intrusive that it becomes counterproductive, creating the appearance of an occupation that could breed resentment among the Afghan people. "He has been mindful … that there could be a [troop-level] tipping point here," Pentagon spokesman Geoff Morrell said in early August. (Gates hedged this view at a press conference last Thursday, saying that his concern was "mitigated" by the prospect of a more civilian-friendly U.S. presence under McChrystal.)

Others in Washington have tut-tutted talk of big spending increases for Afghanistan. This summer, Ambassador Karl Eikenberry cabled Secretary of State Hillary Clinton asking for an additional $2.5 billion in next year's budget for things like roads, schools, and agricultural development—in all, around $1 billion beyond what the Obama White House had envisioned. But, when *The Washington Post* reported on the cable's existence, Deputy Secretary of State Jack Lew suggested that Eikenberry's request would be pared back, and an anonymous Senate aide added that it had been "premature."

The leak of Eikenberry's cable was just one indication that a tense back-and-forth is playing out between Washington and Kabul—as well as within a divided Obama administration, where officials like Vice President Joe Biden are promoting a lighter footprint—over how many dollars and troops Afghanistan mandates. In late December, Mullen publicly said that "it's not a matter of if, but when" Obama would dispatch another 20,000 to 30,000 troops to Afghanistan. But, in his early briefings, White House Press Secretary Robert Gibbs bristled at such talk, saying he was "leery" of such reports. But, in what seems almost like a passive-aggressive contest of wills played out through the media, that hasn't stopped military officials from floating more troop figures. In mid-August, CBS News, citing a "senior adviser" to McChrystal's review, reported that the general would suggest between 15,000 and 45,000 more troops. This week, McClatchy quoted an unnamed senior military official who said that Obama feels that McChrystal and Petraeus are "pressuring him" to send more troops. "There are games being played," says the congressional aide who works on Afghanistan policy. "The message is: Don't ask us for something that would be awkward. Which is Rumsfeld 101."

For additional political coverage by Michael Crowley and other TNR editors, visit ***THE PLANK*** *at www.tnr.com*

It's not just troop level decisions that could lead Obama into Bush's pre-surge failings. Another dangerous temptation will be to underestimate how hard it will be to train local security forces. By June 2005, Bush was promising that, as Iraqi forces stood up, U.S. forces would stand down. But the Iraq war raged for nearly three more years before the Iraqis made a significant contribution to the country's security. Today, the Obama team is just as eager to make a swift handoff to local Afghan forces. "Above all, there must be an Afghan face on this war," Gates said in January.

This is certainly true. But overly bullish talk about training can mislead the public about what victory will require. In his March 27 address to the nation about Afghanistan, Obama said he would accelerate training to create an Afghan army of 134,000 and a police force of 82,000 by 2011. That sounds impressive, but Obama gave short shrift to how inadequate that figure is. His special envoy to the region, Richard Holbrooke, has called the latter number "not sufficient" for that time frame. And an April U.S. intelligence estimate found that the Afghan army will need to grow to 325,000 men to be effective. Given the illiteracy and corruption currently hobbling the Afghan army, that target could be many years and tens of billions of dollars away. (In Iraq, after all, nearly six years of occupation and $700 billion have only recently produced a national army of 250,000 men.)

Then there is the overriding question of just what the U.S. mission in Afghanistan really is. In Iraq, the Bushies offered vague talk of driving out Al Qaeda and setting up a stable government that could defend its own borders. Obama's March address about the Afghanistan war was even cloudier, with a rhetorical emphasis on rooting out Al Qaeda—but also a call for a civilian surge to "advance security, opportunity and justice" for the Afghan people. (Bushian references to freedom and democracy have largely been retired, however.) Asked at a recent press event to describe success in Afghanistan, meanwhile, Holbrooke found a clear answer elusive. "We'll know it when we see it," he said.

But, if the definition of success isn't clear to the Obama team, the definition of defeat may be. Bush argued unabashedly that Iraq had become "the central front in the war on terror" and that withdrawing before the country had stabilized would hand Al Qaeda not only a strategic but a moral victory. Current administration officials don't publicly articulate the same rationale when discussing Afghanistan. But former CIA official Bruce Riedel, a regional expert who led the White House's Afghanistan-Pakistan review earlier this year, cited it at the Brookings panel held in August. "The triumph of jihadism or the jihadism of Al Qaeda and the Taliban in driving NATO out of Afghanistan would resonate throughout the Islamic World. This would be a victory on par with the destruction of the Soviet Union in the 1990s," Riedel said. "[T]he stakes are enormous."

Finally, Obama may have one last thing in common with Bush: personal pride. Bush was determined to prevail in Iraq because he had invaded it. And, while Obama, of course, had nothing to do with the invasion of Afghanistan, he has long supported the campaign there—including during the presidential campaign as a foil for his opposition to the Iraq war. Speaking before a group of veterans last month, Obama called Afghanistan a "war of necessity"—a phrase which politically invests him deeper in the fight. "The president has boxed himself in," says one person who has advised the administration on military strategy. "The worst possible place to be is that our justification for being in a war is that we're in a war."

Obama called Afghanistan a "war of necessity" last month. "The president has boxed himself in," says one adviser.

Ultimately, it was only when Bush was honest with himself and the nation about Iraq—admitting that conditions were dire and ordering his politically poisonous troop surge—that he was able to avoid defeat there.

Obama is already facing a strong temptation to limit America's costs in Afghanistan. But, if Obama's commitment to stabilizing that country is as serious as it sounds, he should be as mindful of GWB as he is of LBJ. Otherwise, he risks a war that leads to a resounding WTF. ◆

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Haiti. Copyright Les Stone.

Global Challenges Need Global Voices.

Subscribe for two years and receive
THE DEVIL CAME ON HORSEBACK DVD free!
See www.worldpolicy.org for details.

WORLD POLICY JOURNAL
published by
WORLD POLICY INSTITUTE

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Real Banker Boondoggle

What the finance industry owes us.

LAURENCE GRAFSTEIN

Few issues since the collapse of venerable Lehman Brothers one year ago have caused as much consternation as performance bonuses for bailed-out bankers. Yet, even among sophisticated observers, there is confusion about what really happened. So, with the benefit of a year's perspective, how should we think about banker compensation in the context of bank bailouts?

Here's a hint: The bonus outrage has distracted attention from the more important way that taxpayers underwrote the wealth of profligate bankers, which was to preserve the extensive equity holdings that senior personnel at these institutions had accumulated prior to the debacle of 2008. And this diversion, in turn, has delayed effective action that might inject a bit of moral culture into the money culture of Wall Street.

Setting aside the debate about the culprits of the crisis, we can acknowledge that every major commercial and investment bank in the United States faced a direct threat to its solvency arising from (a) its level of leverage, which ascended to new heights in the credit bubble, (b) its interrelationships with other leveraged institutions—"counterparties"—and (c) its reliance on short-term funding from those counterparties. These facts are undeniable, even if certain conservatives prefer to attribute the genesis of this predicament to a political desire to foster homeownership among lower-income families.

Now, it is true that every insolvent bank arrived *in extremis* in a slightly different way. Bear Stearns, which had never reported an unprofitable quarter in its history as a public company, suffered a loss of confidence that prevented it from rolling over its short-term funding—but only after having taken its debt ratio to a level of 30 to 1 or higher. Meanwhile, a friend at Lehman confided to me, "We woke up one morning and, instead of an investment bank, we were a real-estate company." That was a week before his firm spiraled into bankruptcy. Merrill Lynch raised its exposure to subprime securitization late in the cycle and, when the music stopped in 2007, got stuck with many more assets—and, hence, much more risk—than it could syndicate.

Bear, Lehman, and Merrill were the three U.S. investment banks that were forced out of existence. But just because other banks might have been better positioned going into the crisis does not mean they would have been safe once the crisis unfolded. Some might have avoided distress in a theoretical world where there were no chain reactions, no credit default swaps, and no panics. But, in the real world, *every* major bank had used structured finance techniques and wholesale funding markets to ratchet up its leverage. Which meant that, once those markets seized up, *every* bank was exposed to disaster in the absence of government intervention.

And there can be no gainsaying just how aggressive that intervention was. To protect the financial system, the range of actions taken by the Federal Reserve, the Treasury Department, other regulatory bodies, and their international counterparts has been breathtaking. Each surviving bank is the beneficiary not just of one bailout but of multiple bailouts.

Most directly, of course, there were the capital infusions provided under the Troubled Asset Relief Program (TARP). Then there was the fact that the money under TARP was provided on terms far more generous than available in private markets. There were the backstops fashioned to draw a perimeter around toxic-asset exposure. There were the guarantees from the Fed that enabled financial institutions to obtain funding when wholesale markets dried up. There were the efforts to unclog the commercial paper markets. Nor was this all. There were the counterparty bailouts: The Bear Stearns and Fannie Mae/Freddie Mac bondholders were protected to buy time for other financial institutions to enhance their balance sheets and buttress confidence. AIG was used as a conduit to facilitate contractual repayments at par (thus avoiding the need for AIG's counterparties to suffer haircuts on those derivatives). There were also the unusual accommodations: targeted short-selling bans, expedited bank-holding company conversions, FDIC-assisted consolidation activity, implicit and explicit "too big to fail" pronouncements.

To enumerate these actions is not necessarily to criticize them. To adapt Napoleon's phrase about taking Vienna: If you want to save the system, save the system. In financial crisis management, mistakes and unpalatable side effects are inevitable. The failures that led to this extraordinary situation were hardly confined to the major banks. There is plenty of blame to go around. But it will not do to absolve banks of their errors because they were responding to easy money or new international accounting standards or modern risk models or investor pressure. They weren't compelled to take leverage above prudent levels or to misread the downside of excessive reliance on securitization.

Regardless of the systemic impact of any uncontrolled solvency crisis, we do not need much imagination to know what would happen to institutions and their employees if they had all been permitted to enter bankruptcy. We can look at what happens to car companies or telecommunications carriers or airlines or, indeed, to Lehman and its predecessors, like Drexel Burnham Lambert, in financial services. Then we can understand the magnitude of the favor provided to the banks, courtesy of the taxpayers.

What happens to senior employees in a conventional bankruptcy? First and foremost, their equity is almost always wiped out. If they have accumulated stock or options, that source of wealth evaporates. At this stage, fiduciary obligations of directors and managers shift from maximization of shareholder value to protecting enterprise value on behalf of all stakeholders—notably, the creditors such as banks, bondholders, and vendors who can no longer count on their loans being repaid.

As part of these court-supervised restructurings, new decision-makers now enter into compensation decisions. Creditors have the right to form committees that review all major corporate decisions, and judges must approve important expenditures. Creditors in bankruptcies, as such, can be harsh taskmasters. Any management-compensation plan for those

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

lucky enough to retain their jobs must meet strict third-party review standards. And the senior talent that has spent many years building equity value faces evisceration of personal balance sheets.

In the bankruptcies of financial institutions, this displacement is even more destructive. By their nature, financial intermediaries are more highly leveraged. Further, certain nuances in the bankruptcy code make an orderly reorganization of the business (rather than liquidation) nearly impossible. That is why the FDIC always orchestrates bank seizures and sales over the weekend, so disorderly panic can be avoided. For investment banks, as with the Lehman example, the inability to stay certain counterparty creditors—such as holders of derivative contracts—coupled with the inability to obtain ongoing financing mean that the firm effectively has to shut its doors overnight.

With the benefit of hindsight, we can argue about whether the actions taken to address the rolling crisis of confidence were wise. What is inarguable is the special treatment that bankers received. It wasn't just that jobs were preserved or that annual bonuses continued to be paid. It was that, unlike every employee of every company that goes bankrupt for reasons related to its own position or general industrial conditions, the bankers had their equity preserved by the government's rescue efforts—whereas, say, the bailouts of GM and Chrysler left nothing for their shareholders.

In practice, this meant that 1,000 or so senior employees in each of the institutions with major investment banking operations avoided the disappearance of their accumulated wealth, numbering in the millions of dollars per employee in the vast majority of cases—and in the tens of millions of dollars in many cases. In public corporations across most industries, only a handful of employees are compensated to this degree (the notable exception being the technology industry, where IPO stock can lead to riches but where companies do not get bailed out in the event of failure). But, in major banks, the extent of stock-based ownership awarded as a central component of bonuses and the run-up in equity values in the years preceding the crash led to hundreds upon hundreds of managing directors gaining expansive paper wealth.

In the case of Lehman, the managing directors lost all of their equity. Bear Stearns bankers salvaged less than 10 percent from the peak. And, indeed, the pressure on stock prices for financial institutions and the dilution associated with the huge losses have meant that, even among the surviving banks, paper wealth has compressed to 70 percent (or, in some cases, much less) of what it was in the heady days of 2007. Crucially, however, these companies lived to fight another day—and to enable a rebound of the personal balance sheets of these bankers who, in a normal insolvency context, would have lost it all.

It is in this respect that the decision to pay bonuses needs to be reviewed. Many CEOs and senior bankers last year eschewed bonuses (which constitute, by tradition, the vast majority of total pay for managing directors) and almost all managing directors took real pay cuts. But, among those thousands of bankers at bailed-out institutions whose wealth had been preserved, almost all wound up receiving a bonus at a level many multiples of the average annual income.

The main argument for continuing to award these bonuses, even in the face of government ownership, is that the banks risked losing top talent to competitors—hedge funds, private equity firms, boutique banks that did not require bailouts, and so on. But, even if you grant that debatable proposition, the form and structure of that compensation remain at issue. And it is here that policymakers and the boards of directors responsible for governing the banks must focus attention.

When the government put money into these institutions last year, the bankers who made the mistakes were not asked to help rebuild the bank's capital as a condition of their bailout. The cheapest form of private financing would have been for accrued managing-director bonus pools to have been channeled into deferred compensation subordinated to the taxpayer funds. In most businesses that lose money, owners have to put capital in rather than take money out—as banks well know, since their core function as lenders is telling borrowers how to protect their businesses' viability. Despite last year's bonus reductions, many recipients of public support still allowed senior employees to take significant cash out. They also awarded new grants of restricted stock at historical stock-price troughs, which turbo-charges compensation when the market recovers (as it recently has—thanks, of course, to all those government interventions).

Private sources of capital, such as Warren Buffett, want to know that senior managers have interests aligned with theirs, which is why they often insist that key employees not be permitted to sell their stock or take any cash out of the business for a period of time. Among other things, this protects the position of the new-money investor in any business dependent on human capital. Bankers uncomfortable with that type of lock-up are probably not the best employees to continue to work for a troubled financial institution. If they are not willing to partner with the government—which, after all, has protected their historical accumulated stock compensation—on terms that any private investor would stipulate, then they should leave the firm, forfeit any unvested stock, and free up the funds. My guess is that few Wall Streeters would have refused those reasonable terms in the face of the economic maelstrom.

Similarly, institutional investors supplying capital for private equity funds routinely include the concept of a partial clawback of any gains taken out that are subsequently eclipsed by losses. Funds are required to escrow a certain percentage of their notional gains as well. This mitigates the problem of outsize compensation being taken in good years and, then, having only a downside of zero in bad years. Even now, months after the credit meltdown called into question the profits of the previous decade, banks have been slow to implement mechanisms like this that moderate risk to their own shareholders—and the system as a whole.

Another logical approach was taken by Credit Suisse, which gave its senior bankers an interest in the toxic assets remaining on its books—a way of making their managing directors eat their own cooking while helping reduce the exposure of other owners to the securitization debacle. An even simpler structure would be to pay bankers in subordinated equity-like securities that have low interest rates and take first losses in any future financial strain, thus enabling them to join the taxpayers in the pleasure of rebuilding the institution's balance-sheet capital position. Financier, fund thyself.

The point is that there are a wide variety of ways to structure compensation at financial institutions. It's not creativity that is required—just a dose of humility, gratitude, and a willingness to entertain risk-sharing constructs that are widely used already in the private sector. Oh, and public morality. After everything we've done as taxpayers, is that too much to ask? ◆

Laurence Grafstein, chairman of The New Republic Advisory Board, has worked on Wall Street for 20 years. These are his personal views.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Next Financial Crisis

It's coming—and we just made it worse.

PETER BOONE AND SIMON JOHNSON

To many observers, the Federal Reserve has never looked more heroic than it does right now. This past winter, America's financial system faced the prospect of utter ruin. And, while the economy has suffered plenty in 2009, the worst did not come to pass. The banking system that lends to our employers, thereby allowing our economy to function, never did collapse. Now, many of the accolades for averting catastrophe are going to the Fed. President Obama himself ratified this analysis last week when he renominated Fed chairman Ben Bernanke for a second term. Bernanke, the president told reporters, had marshaled "his background, his temperament, his courage, and his creativity" to help prevent a second Great Depression.

What these words of presidential praise obscured was that the Fed may well have mitigated our current crisis by sowing the seeds for the next one. All modern economies need a financial system that can connect people who want to save with those who have good investment projects. This is essentially what banks do. But, unfortunately, this process often goes wrong. And that is precisely what is happening now. Our banks have gotten into the habit of needing to be rescued through repeated bailouts. During this crisis, Bernanke—while saving the financial system in the short term—has done nothing to break this long-term pattern; worse, he exacerbated it. As a result, unless real reform happens soon, we face the prospect of another bubble-bust-bailout cycle that will be even more dangerous than the one we've just been through.

If you've studied U.S. economic history, none of this will come as a surprise. We have seen this spectacle—the Fed saving us from one crisis only to instigate another—many times before. And, over the past few decades, the problem has become significantly more dire. The fault, to be sure, doesn't lie entirely with the Fed. Bernanke is a prisoner of a financial system with serious built-in flaws. The decisions he made during the recent crisis weren't necessarily the wrong decisions; indeed, they were, in many respects, the decisions he *had* to make. But these decisions, however necessary in the moment, are almost guaranteed to hurt our economy in the long run—which, in turn, means that more necessary but harmful measures will be needed in the future. It is a debilitating, vicious cycle. And at the center of this cycle is the Fed.

Banking was once a dangerous profession. In Britain, for instance, bankers faced "unlimited liability"—that is, if you ran a bank, and the bank couldn't repay depositors or other creditors, those people had the right to confiscate all your personal assets and income until you repaid. It wasn't until the second half of the nineteenth century that Britain established limited liability for bank owners. From that point on, British bankers no longer assumed much financial risk themselves.

In the United States, there was great experimentation with banking during the 1800s, but those involved in the enterprise typically made a substantial commitment of their own capital. For example, there was a well-established tradition of "double liability," in which stockholders were responsible for twice the original value of their shares in a bank. This encouraged stockholders to carefully monitor bank executives and employees. And, in turn, it placed a lot of pressure on those who managed banks. If they fared poorly, they typically faced personal and professional ruin. The idea that a bank executive would retain wealth and social status in the event of a self-induced calamity would have struck everyone—including bank executives themselves—as ludicrous.

Enter, in the early part of the twentieth century, the Federal Reserve. The Fed was founded in 1913, but discussion about whether to create a central bank had swirled for years. "No one can carefully study the experience of the other great commercial nations," argued Republican Senator Nelson Aldrich in an influential 1909 speech, "without being convinced that disastrous results of recurring financial crises have been successfully prevented by a proper organization of capital and by the adoption of wise methods of banking and of currency"—in other words, a central bank. In November 1910, Aldrich and a small group of top financiers met on an isolated island off the coast of Georgia. There, they hammered out a draft plan to create a strong central bank that would be owned by banks themselves. What these bankers essentially wanted was a bailout mechanism for the aftermath of speculative crashes—something more durable than J.P. Morgan, who saved the day in the Panic of 1907 but couldn't be counted on to live forever. While they sought informal government backing and substantial government financial support for their new venture, the bankers also wanted it to remain free of government interference, oversight, or control.

The initial idea was politically controversial: It looked like a trick to get taxpayers to effectively finance banks and their various speculations. The eventual compromise, brokered by Woodrow Wilson, diluted the Fed's proposed powers and gave the government a stronger hand. But, while those who hatched the Fed didn't get everything they wanted, they did get the most important thing: an institution that could help cushion the blow when banking crises occurred.

In the years to come, the Fed would repeatedly provide lifelines to banks in need of help. This support has taken two broad forms: liquidity loans, whereby the Fed gives a bank a short-term loan that can be rolled over many times; and lower interest rates, which increase banks' profits by reducing the cost of most of their funding. These efforts would often help to mitigate individual disasters. But, by insulating banks from the terrible consequences of their own blunders, these measures would also encourage them to keep taking unwise risks, and thereby lay the groundwork for future crises.

In 2002, Ben Bernanke issued an apology on behalf of the Fed—but not for anything *he* had done. Bernanke was apologizing for the Fed's role in causing the Great Depression. He was referring to the fact that the Fed's monetary policy had been too tight from 1929 to 1933, allowing too many banks to fail. But this is only half the story. During the heady

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

days of summer 1927, the Fed had done something else that would contribute to the Great Depression: It *lowered* interest rates. Markets responded to the rate cuts with a strong rally in the second half of 1927, and the Fed then decided to raise rates from 3.5 percent to 5 percent in 1928. But it stopped there. A higher rate would have choked off farmers who needed capital and were facing falling commodity prices throughout the decade. Moreover, it would have ended the bonanza of stock price gains that was benefiting the financial sector. To reduce risk, the Fed could have used its powers to convince banks to stop providing loans for stock purchases and to increase their capital, but this too would have ended the bonanza. It was a classic Fed dilemma: Should it raise rates and take other actions to curtail financial speculation involving excessive risk-taking, but possibly slow down the rest of the (real, not financial) economy in the process—and bear the resulting political damage? The Fed decided to stand aside. And so, history's most damaging economic bubble was created.

After 1929, the government considerably tightened the rules controlling banks, securities transactions, and risk-taking more generally. For a while, the system worked reasonably well. But, eventually, banks would learn how to play the new game. They would spend serious money lobbying to keep regulations lax, hiring lawyers and accountants to find methods to minimize or avoid regulations, and incentivizing employees to hide risk from regulators. While the banking sector became more risky, creditors to banks (such as depositors and lenders) knew they could count on the Fed to engineer bailouts via lower interest rates and access to credit if times got tough—so banks had no trouble raising funding from creditors, and our financial system grew rapidly.

The Fed did not create this atmosphere of elevated risk, but it ended up playing a central role in perpetuating it. Since the 1970s, successive financial crises have required ever more dramatic reactions from the Fed. Every time there is a potential financial meltdown, the Federal Open Market Committee quickly cuts short-term interest rates. These cuts have become larger and larger over time, now essentially taking interest rates to zero. Each round of interest-rate cuts has made sense when a given crisis breaks. But these cuts—which effectively function as bailouts for banks that have gotten into trouble—often helped bring about the next financial crisis. And the crises are getting larger, not smaller, over time.

Every crisis of the past few decades has had its distinctive features, of course, but the broad pattern is the same. Paul Volcker cut interest rates after the Latin American debt crisis broke in the early 1980s; this lowered the cost of funding speculative real-estate deals and—combined with regulatory breakdown—helped pave the way for the S&L crisis. Ironically, Volcker—seen as the very model of a traditional anti-inflation central banker—presided over the first major modern instance of using interest policy to help banks get back on their feet. Next, Alan Greenspan cut interest rates following the stock-market crash of 1987 and the development of commercial real-estate problems in the late 1980s and early '90s. The resulting credit boom helped push (unregulated) financial exuberance into emerging markets. One by one, there would be crises in those emerging markets: Mexico, Thailand, Indonesia, Malaysia, Korea, Russia, and Brazil all experienced economic calamity between 1995 and 1998.

In September 1998, we saw the failure of a single lightly regulated U.S. hedge fund, Long-Term Capital Management. This threatened our financial system, and the Fed cut rates preemptively—making popular the term "Greenspan put." (A put is a contract that gives the owner the right to sell assets at a fixed price, and it is often used to lock in profits or limit losses. So, if your assets fell in value, Greenspan would effectively buy them or—literally—put a floor under their value. Stocks, for example, are underpinned by future expected company earnings; the value today of those future flows goes up when interest rates are lower—so any cut by the Fed is welcomed by stock-market investors.) In a bright shining moment, markets realized that the Fed was prepared, through interest rate cuts and loose credit, to do whatever it took to bail out financiers facing large losses. Risk-taking without fear for the consequences became the name of the game, at least for our largest financial players: They get the upside if things go well, and the Fed will limit their downside when the speculative frenzy of the day finally runs out of steam.

This environment helped feed the technology bubble—and bust. And this led to further rate cuts—championed by Bernanke, then working under Greenspan. Those 2001 rate cuts—and subsequent decisions to hold interest rates low—encouraged our housing bubble. The phrase "Bernanke put" is now catching hold, meaning an explosive burst of bailouts, liquidity provision, and supportive fiscal stimulus far larger than anything implemented under Greenspan. But Bernanke's mega-put is just one further step along a path that was established long ago, back in 1913 when the Federal Reserve was founded.

Over the past century, we have moved away from a system where bank shareholders and senior executives paid dearly for bad management—and toward a system where fired bank bosses make off with fortunes or launch brilliant political careers. No one is on the financial hook, other than the taxpayer. Consider the case of Citigroup, a seriously troubled bank. Chuck Prince, the CEO who fell flat on his face, walked away with close to $100 million. Win Bischoff, former chairman and interim CEO of Citigroup during the debacle, has just been appointed chairman of Lloyds Banking Group in the United Kingdom—reflecting the high esteem in which he is apparently still held. And Robert Rubin, Treasury secretary under Clinton, made over $100 million as board member and chair of Citigroup. In an interview late in 2008, he brushed off any responsibility for the mismanagement of anything. And so, our recurring financial crises are not isolated random events; they emerge from a pattern of private and public sector behavior. Enabled by the Fed, our system's tolerance for risk is out of control. This is an increasingly dangerous system. It is only a matter of time until it collapses again.

What will that collapse look like? The bubbles this time will likely appear abroad. Parts of Asia and Latin America, a tiny fraction of the size of the U.S. economy, are experiencing large capital inflows, low interest rates, and the beginnings of a major boom. Countries with intact banking systems and access to global capital markets will lead the next speculative wave. The United States will be pulled in—probably soon enough that we will all be surprised by a supposedly robust recovery, fed by continued low interest rates and loose credit. We all know these episodes end in tears, but they can be spectacular while they last.

Just like in the late 1920s, most central banks—the Fed among them—will undoubtedly wait a long time to raise interest rates. Inflation remains low, and bankers will surely argue that financial-sector fragility means we should be cautious. It would take a tremendous political battle to stop the next bubble; who wants to take away the punch bowl in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the midst of a perceived boom? By the time the Fed and other central banks get around to tightening monetary policy, it will already be too late.

Based on what we have seen over the past two decades, the cost of the next collapse will invariably be steep. Since the early 1980s, the Fed has gone back to its origins as the bailout machine for the financial sector. The only difference is that this sector has become much larger since 1907 or 1913. Back then, it accounted for around one percent of GDP. Now it is closer to 8 percent. The cost of bailouts—the current one and those to come—has skyrocketed as a result.

In June 2009, Treasury Secretary Timothy Geithner unveiled the administration's plans for reforming our financial sector and preventing a major crisis from happening again. The cornerstone of the proposal is to (slightly) reduce the number of agencies carrying out regulation, and to give new powers to the Fed.

Unfortunately, these changes are unlikely to work. They do not alter the enormous incentive our banks have to take excessive risks. They don't address the fact that strong financial groups can lobby our lawmakers and beat down regulators until they are largely ineffective. And they don't affect our propagation mechanism: The printing presses at the Fed remain open and available for when the next crash comes, and that makes creditors confident that they can lend without risk to our heavily leveraged financial sector. As long as this combination remains in place, today's financial executives fully understand that the party goes on.

Consider the lessons learned in the past twelve months by our major banks. If they again get into serious financial trouble, the Fed can be counted on to lend them essentially unlimited amounts at effectively zero interest rates. What would you do with free money? You'd pay off all your old debts, then you'd find something to invest in that would yield a decent return. But then you'd reckon—why not take more risk? After all, if things go badly, you'll get more free money.

We don't need to repeat history and make bank owners subject to "unlimited liability"—but we do need to make their financial outcomes more closely linked to the risks they take. First, we should sharply raise capital requirements at banks so that the shareholders have more at stake. Shareholders need to feel that when a bank takes gambles, their money is truly at risk. Under our current regulations, a bank like Goldman Sachs puts up only $1 billion of equity for every $13 billion of assets. Who is taking this risk? It is us—as taxpayers.

How much capital is enough? This is a hard question, with no definite answer. One answer, offered by Nobel Prize winner Robert Merton in 1995, is: not much. Merton reasoned that modern risk management and the availability of sophisticated hedging strategies meant that more and more of what banks do is essentially riskless and, therefore, does not need capital. Of course, Merton was deeply involved in the failure of Long-Term Capital Management in 1998, as well as the broader ideological development that underpinned the highly leveraged strategies built around housing during the early 2000s. His view remains theoretically elegant but completely ignores the reality that our financial system—because we bail it out every time things go wrong—provides strong incentives to take bad gambles.

The idea that banks should carry an "equity cushion" (to absorb losses before anyone has to turn to the government) worth around only 6 or 8 percent of their assets is a quite modern idea. (As recently as the mid-nineteenth century, banks financed significantly more of their assets with equity.) Perhaps a low equity cushion made sense when banks were tightly regulated and limited in the risks they could take, say from 1935 to around 1980. But leading students of central banking today, such as Charles Goodhart, argue strongly that, with the collapse of effective regulation over the past two decades, thin equity layers at many leading banks (in combination with limited liability of shareholders) are completely inappropriate for maintaining a stable financial system.

Second, the managers and boards of directors of financial institutions should be personally liable up to a reasonable sum when their companies fail. They should lose a portion of past salaries and bonuses, while also seeing their bank-provided pensions reduced substantially. Richard Parsons, the chair of Citigroup since February 2009, is estimated to be worth more than $100 million. Yet he reports that he owns only around $750,000 of Citi stock. Such negligible personal downside risk for the board of directors is the norm in high finance today. We should let bank executives be paid well when they are successful—but they should truly lose if they take risks that lead to taxpayer bailouts. It can take up to a decade before the success or failure of past business decisions really becomes evident in banking, so reductions in pensions, and clawback of bonuses, should take this into account.

Third, we need to set rules so that our regulators and public servants, who have the role of protecting taxpayers, are not financially conflicted. Today, the revolving door from government leads directly into the lobbies of our major banks. We need a rule that all employees of the Fed, the U.S. Treasury, and other regulatory bodies are not permitted to work in finance for at least five years after they leave office. If government employees have joined a regulatory authority from the financial sector, they should have a "cooling off" period within which they are prohibited from any official role in the design or implementation of regulation or bailouts.

Finally, we need more assertive leadership at the Fed regarding broader system issues. The Fed, of course, will protest, "This is not our job." It will say that Treasury is responsible for the administration's approach and that authority ultimately rests with Congress.

This is true, strictly speaking. The Fed did not create our current atmosphere of deregulated risk-taking. But neither is the Fed blameless. The Fed is partly a prisoner of the current system—but it is also partly a jailer. In the moments when the Fed is presented with a rescue-the-banks-or-the-economy-will-collapse scenario, it is a prisoner. But the Fed, and especially the chairman of the Fed's board, has plenty of power to shape the environment that produces this choice. And it has taken on the challenge of shaping the financial climate before. During the 1930s, Fed chair Marriner Eccles was an advocate for change across the financial system. Now, Bernanke needs to play the same role. He needs to advocate for rules and regulations that ensure financial leaders will bear serious costs when there is a future failure due to excessive risk-taking. Otherwise, the Fed will continue to be a handmaiden to repeated bailouts. And, with each bailout laying the groundwork for the next one, the peril facing our financial system will only grow worse. ◆

Peter Boone is chairman of Effective Intervention, a Britain-based charity, and a research associate at the London School of Economics's Centre for Economic Performance. Simon Johnson is a professor at MIT's Sloan School of Management and a senior fellow at the Peterson Institute for International Economics. They write for The Baseline Scenario, a blog on economics.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Stop the Shakedown. End Too-Big-To-Fail.

Americans have had enough of the nightmare of irresponsible big institutions getting bailed out by the U.S. government using their tax dollars. The average citizen on Main Street should not have to pay for the risky behavior of corporate giants on Wall Street.

In contrast, community banks exist to protect and provide for the "little guy." In thousands of cities, towns and rural areas across the nation, we help consumers achieve their dreams - from starting a small business to financing a home to paying for a wedding or sending kids to college. We are extra careful with our resources because we care deeply about our customers. After all, they are our neighbors, family and friends.

Too-big-to-fail is a failed policy. For the sake of hardworking Americans and the future of our economy, it's time Congress cut the giants down to size and make them pay their fair share.

ICBA
INDEPENDENT COMMUNITY BANKERS *of* AMERICA

The Nation's Voice for Community Banks™

www.ICBA.org

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Peking Over Our Shoulder

Our Chinese shareholders get nosy.

NOAM SCHEIBER

The annals of Sino-American relations have seen more than a few celebrity-diplomats: Henry Kissinger, a young Richard Holbrooke, and, of course, the current secretary of state. But, unless the record has been lost to history, none has ascended to this rarefied plane of geopolitics while running the Office of Management and Budget.

And yet, there was budget director Peter Orszag rushing to a lunch with Chinese bureaucrats on a Monday in late July. To his surprise, when Orszag arrived at the site of the annual U.S.-China Strategic and Economic Dialogue (S&ED), the Chinese didn't dwell on the Wall Street meltdown or the global recession. The bureaucrats at his table mostly wanted to know about health care reform, which Orszag has helped shepherd. "They were intrigued by the most recent legislative developments," Orszag says. "It was like, 'You're fresh from the field, what can you tell us?' "

As it happens, health care is much on the minds of the Chinese these days. Over the last few years, as China has become the world's largest purchaser of Treasury bonds, the government has grown increasingly sophisticated in its understanding of U.S. budget deficits. The issue has become all the more pressing in recent months, as the financial crisis and recession pushed the deficit to record levels. With nearly half of their $2 trillion in foreign currency reserves invested in U.S. bonds alone, the Chinese are understandably concerned about our creditworthiness. And this concern has brought them ineluctably to the issue of health care. "At some point, if you refuse to contain health care costs, you'll go bankrupt," says Andy Xie, a prominent Shanghai-based economist, formerly of Morgan Stanley. "It's widely known among [Chinese] policymakers." Xie himself wrote a much-read piece on the subject in 2007 for *Caijing* magazine—kind of the Chinese version of *Fortune*.

And so, whereas previous U.S.-China dialogues, which former Bush Treasury secretary Hank Paulson officially launched in 2006, consisted largely of discussions of international issues like trade, currency, and cross-border investment, this year's included conversations about domestic topics like health care and budget discipline. Indeed, the joint announcement that capped two days of talks in Washington actually included a U.S. commitment to "reform its health care system with the aim of controlling rising health care costs for businesses and government … [and] reducing the federal budget deficit relative to GDP to a sustainable level by 2013."

The language marks a shift in Sino-American relations that extends far beyond these formal meetings. For decades, while the United States has prodded China on any number of internal issues, the reverse has rarely been true, except for the vaguest exhortations. The notion that we might take advice from a developing country—even one as large and rapidly industrializing as China—would have been a blow to our self-image, at least if it weren't so laughable. Within a few short years, though, Washington has come face to face with a daunting new reality: Not only are the Chinese raising questions about our domestic policies, but we suddenly have to listen. "The U.S. had all the answers once upon a time," says a senior administration official. "But China's not the apprentice anymore."

To appreciate the complexity of the challenge China poses, it's worth considering one of the country's best-selling books in recent years: a paranoid (and vaguely anti-Semitic) polemic called *Currency Wars*, written by a dubiously credentialed man named Song Hongbing. Song, who briefly worked a finance job in the United States, alleges that the Western banking establishment hatched the modern financial system in an elaborate plot to dominate the world. Europe fell first, then America. (JFK was assassinated when he tried to resist.) More recently, Japan's lost decade and the Asian financial crisis of the mid-1990s served as warm-up acts for the coming assault on China. Predictably, the Rothschilds occupy the center of the narrative.

Victor Shih, an expert on Chinese political economy at Northwestern University, notes that even educated Chinese have been remarkably susceptible to Song's ravings, to say nothing of the man on the street. The book went through ten printings within a year of its publication in 2007, according to the website Chinastakes.com, and today, there are well over half a million copies in print. Tsinghua University, one of the country's premier academic institutions, went so far as to hold a conference on the book's conclusions.

No doubt the book's favorable reception derives from China's centuries-old strains of nationalism, xenophobia, and victimhood, mixed with the Communist Party catechism about Western imperialism. "[W]hen you really talk to people, get drunk with them, they let loose," says Shih. " 'The American imperialists are still out to get us.' " But some of the suspicions Song exploits are far more rational and mundane. Andy Xie points out that the Chinese had their own experience with large deficits in the 1980s—driven, in part, by health care costs and other generous benefits under the country's "iron rice bowl" system. The country financed the deficits by printing money, which created inflation and debased its currency. Against this backdrop, the ever-pragmatic Chinese have a hard time believing that Americans, faced with over $9 trillion in deficits this coming decade, might not avail themselves of the same option, devastating China's dollar stockpile in the process.

The Chinese leadership shares these concerns—perhaps understandably so. Not only is the United States minting truckloads of debt each day, but, in recent months, the Fed has essentially printed money to buy up substantial chunks of it. "In the meetings I've had, they tend to ask me about … the Fed's ability to buy Treasuries," says Steve Orlins, a former State Department official and investment banker who now heads the National Committee on U.S.-China Relations. "The Chinese looked at that [and said], 'There are two buyers: us and the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Fed. That's a little scary.'" Chinese officials can be forgiven for worrying, in weaker moments, that the U.S. government is simply playing them for fools—hawking Treasuries whose value we intend to erode by spurring inflation.

Still, on balance, the bureaucratic class in China has fairly nuanced views of U.S.-China financial relations. The technocrats who work in international finance regard Song's conspiracy theory as pure fantasy. According to one Treasury aide, the Chinese economic leadership understands that there's an enormous obstacle to inflating away U.S. debt: Americans, not foreigners, hold the majority of it. These officials also see nothing insidious in the aggressive, unorthodox steps Fed Chairman Ben Bernanke has taken during the financial crisis. "I've talked to central bankers in China, who said we knew the Fed would start buying . . . U.S. Treasuries," says Shih. "Bernanke said that's what he would do in his academic work. It didn't disturb them at all."

Even outside the Chinese central bank, senior officials have been sympathetic to Washington's response to the financial crisis, concluding that the alternative—years of economic contraction or subpar growth—would have posed a far bigger threat to their Treasury holdings. In recent months, the Chinese have noted with pride that they had more in common with our response to the crisis than with those of other major economies.

On top of which, thanks to the sheer size of their dollar holdings—more than $1.5 trillion at last count—the Chinese don't really have any place to go. There's simply no other asset you can plow a trillion dollars into without either taking an enormous risk, massively driving up the price on yourself, or being unable to cash out portions when you need it. And, of course, if the Chinese were to abruptly stop buying and begin selling, they would almost certainly create a run on Treasury bonds and devastate the rest of their portfolio before they could unload it. No surprise, then, that Chinese Treasury-buying has remained strong even as the deficit has spiked.

All of which is to say that, to the extent the administration has a problem with our largest creditor, it may be less with the Chinese leadership than with the Chinese people (the opposite of the dynamic that prevails on issues like human rights). The average Chinese—whether educated or not—looks at his country's swollen coffers and wonders why that $2 trillion in foreign exchange reserves isn't helping to make life easier in China—which, after all, remains a country of enormous privation. More importantly, he's entitled to voice his opinion. Although the Chinese regime is famously quick to stifle political dissent, it tends to allow criticism of the country's economic policies, seeing it as a useful safety valve.

It's a privilege the Chinese lustily embrace, carping away in the media, on blogs, and on Internet chat boards. After the China Investment Corporation (CIC), the country's roughly $300 billion sovereign wealth fund, saw a $3 billion investment in The Blackstone Group, the American investment firm, begin to go south two years ago, the online backlash was intense. Bloomberg reported that one Chinese Web surfer accused the CIC leadership of "squandering taxpayers' money like it's dirt" in a post on Sina.com, a popular web portal. Not even visiting American dignitaries are spared such abuse. When Treasury Secretary Timothy Geithner spoke at Peking University in June, his comment that China's holdings of U.S. Treasury bonds are "very safe" provoked laughter from skeptical students.

Perhaps more to the point, the Chinese leadership is highly sensitive to such pressure. "Americans make mistakes when they think that politics don't exist in China, that these guys don't have to pay attention to what the Chinese people are saying," says one Treasury official. "Their room to maneuver is constrained by public opinion." Outside the obvious ways, bureaucratic politics in China isn't so different from its American counterpart. Shih explains that rivals of senior government officials—like prime minister Wen Jiabao, or vice premier Wang Qishan—will often point to the unpopularity of certain economic policies to weaken their standing internally.

This can, in turn, prompt the likes of Wen and Wang to signal their bona fides through periodic outbursts—a feature of the Sino-American relationship in recent years that has intensified of late. In March, Wen publicly complained that "we have lent a huge amount of money to the United States. . . . I request the U.S. to maintain its good credit, to honor its promises and to guarantee the safety of China's assets." Then, in late July, in what was either a remarkable coincidence or a statement timed for the S&ED, Wen announced that the Chinese government "should hasten the implementation of our 'going out' strategy." The mention of the strategy, wherein China would use its dollar stash to fund acquisitions of foreign companies by state-controlled enterprises rather than, say, buy additional Treasuries, raised eyebrows in financial

China has a few questions about our economic policies.

AP PHOTO/GERALD HERBERT

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

circles. "We've never seen a political leader come out and say that," says Stephen Green, a longtime China watcher at Standard Chartered Bank in Shanghai.

To be sure, Green, like at least one Treasury official I spoke with, was skeptical that China could execute such acquisitions quickly enough to make a dent in its dollar holdings. But the mere statement suggests the kind of pressure the regime is under to change its investing habits.

Few Treasury secretaries have come into office better prepared to deal with this delicate political economy than Geithner. His ties to China date back to the summer of 1981, when he studied Chinese at Peking University after his sophomore year of college. This was only a few years after the two countries had established relations, and the Chinese were invariably stunned to see pale-faced Americans strolling through their capital. Their reflex was to point and gawk liberally.

Geithner had a trademark technique for approaching the gawkers and striking up conversation: He would bob his head while swaying his hips, shoulders, and fingers—like something out of a Steve Martin sketch on "Saturday Night Live." "It was almost like a wild-and-crazy-guy-type dance move," recalls Justin Rudelson, a close friend from Geithner's Beijing days. "He had a really warm, funny way about him. . . . Within seconds, he'd break through." One minute Geithner would meet an ordinary Chinese person, the next he'd be helping them buy some household appliance at a nearby friendship store, which catered exclusively to foreigners with hard currency. (The alternative for the Chinese was spending months on a waiting list.) In this way, Geithner collected a handful of invitations to Chinese dinner tables, where he'd field-test his Mandarin over a home-cooked meal.

Still, the otherworldly weirdness of the experience was sometimes inescapable. On most days, the water in the dorm Rudelson and Geithner shared was ice cold. But, about once a week, the hot water would flow, as if by divine intervention. The first time it happened, the steam from the shower made the bathroom's paint transparent, exposing red Chinese characters that read: "Overthrow the American imperialists and their running dogs." "It was Cultural Revolution rhetoric," Geithner says with a laugh. "The running dog stuff—that stuck."

Geithner had been learning Chinese as an undergrad at Dartmouth and ultimately spent two summers in Beijing. After college, he earned a master's in East Asian studies at the Johns Hopkins School of Advanced International Studies, then filled out his China credentials with a stint as a researcher for Henry Kissinger. "He did a number of papers on the relationship between the economic, social, and political structure in making foreign policy in China, Japan, and other Asian countries," Kissinger says. "He had a great analytical mind." These years of apprenticeship help explain why Geithner was eager to keep the China economic portfolio at Treasury, despite Hillary Clinton's initial interest in playing a more prominent role. (The two secretaries amicably resolved the turf question at an early lunch meeting: Economics would stay put at Treasury, but the Strategic Economic Dialogue would become the Strategic *and* Economic Dialogue, with State presiding over a parallel discussion of security issues.) They also gave him a certain intuition about negotiating with the Chinese.

✳ *For more on the battle to fix our economy, check out Noam Scheiber's* **THE STASH** *at www.tnr.com*

Among his guiding principles, Geithner recently divulged to me, is not presuming to understand China's self-interest better than the Chinese themselves. "It's a ridiculous conceit," he says. "You have to assume they know where their interests lie, and you have to figure out where the constraints are [as a result]—to try to make it compelling to them." In the case of China's Treasury holdings, that means Geithner doesn't waste his breath extolling the virtues of U.S. bonds. Instead, he tries to show that the administration believes it's in our national interest to control the deficit, which should put the realpolitik-oriented Chinese more at ease. "My basic approach is to make sure they understand there's no way they're going to care about this stuff more than we do," Geithner says.

Over the last few months, Treasury has focused its efforts on sending this message credibly. In his June speech at Peking University, for example, Geithner highlighted Obama's insistence in his budget rollout that the deficit would have to fall dramatically once the recovery was safely underway—suggesting an alignment between China's interests and the Obama administration's domestic political calculus.

The S&ED proceeded in much the same vein: a parade of information and gestures the Chinese could point to when justifying their dollar-reserve policies back home. The key discussion came on the first afternoon, when about a dozen senior officials from each side gathered in a meeting room at the Reagan Building, a few blocks from the White House. Geithner, Orszag, Bernanke, and White House economists Larry Summers and Christina Romer all attended. Bernanke elaborated on how the Fed would scale back its financial-market interventions before inflation became a problem. At one point, Summers helpfully interjected that it's difficult to find an industrialized country that has ever experienced inflation without the economy overheating (that is, producing at more than capacity), something that isn't a concern at the moment.

For his part, Orszag gave a slightly more data-heavy version of a presentation he'd given a few days earlier at the Council on Foreign Relations. The bottom line: The recession and the financial crisis explain about two-thirds of the current deficit. "The Chinese side found that interesting and persuasive," says one person who was in the room. "They knew about the stimulus, but I didn't have the impression they were aware that two-thirds of the deficit was . . . related to the crisis."

But, all in all, the atmospherics may have been just as important as any particular data point: "To be frank, when you see Peter Orszag, Summers, Christie Romer, Geithner, Bernanke sitting in a room, explaining U.S. economic policy, it's impressive," says this person. Impressive and, in a way, flattering. While the dialogue received minimal coverage in this country, it was a major media event in China. Vice Premier Wang's remarks at a dinner hosted by Orlins' group and the U.S.-China Business Council stressed the mutual respect between the two countries and were carried live by Phoenix Satellite Television, a major Chinese network. One of the photographs that circulated widely in China after the S&ED depicted Bernanke poised on the edge of his seat as Wang hit a point of emphasis.

And it wasn't just intellectual displays. On the first night of the dialogue, the State department hosted a lavish banquet in honor of the Chinese in Foggy Bottom's ornate Benjamin Franklin dining room. "The Chinese always roll out

ANTHONY RUSSO

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the red carpet," says a Treasury aide. "I felt like, on the pageant-meter, we did a good job." One of Hillary Clinton's subtle touches was to surprise the Chinese with a performance by the opera singer Renée Fleming—a friend who "happened to be in town." Fleming became a sensation in China after singing there during the Beijing Olympics. According to one administration official, there was an "audible gasp" from the Chinese in the room when she introduced herself.

The reason for all of this is to help the Chinese manage their domestic political needs, not because we fear the Chinese may suddenly start dictating Medicare cuts or income tax hikes. Still, there's at least one potential problem with owing so much money to a strategically critical country: We have a vast range of interests at stake with the Chinese, and the focus on all the money we owe them may, at the margins, deprive us of leverage we need to advance those interests.

For example, the administration is currently weighing whether to impose tariffs on Chinese tires, whose recent surge into this country the U.S. International Trade Commission has ruled a "disruption" that unfairly crowds out domestic producers. The tariffs are allowed under China's World Trade Organization agreement, but they would invariably provoke cries of protectionism. Now, maybe the administration will move ahead with the tariffs in any case. But, at a time when we depend so heavily on the Chinese for low-cost debt financing, the decision seems more than a little fraught. The same goes more broadly for China's policy of suppressing its exchange rate so as to make its goods cheap for American consumers.

Perhaps even more daunting is the set of critical issues outside the narrower realm of economics. During the S&ED, Clinton conferred at length with the senior Chinese foreign policy official, Dai Bingguo, about such hotspots as Iran, North Korea, and Darfur. Also looming at the dialogue was global warming, on which Chinese cooperation is essential. And, of course, that's miles before you get to internal Chinese matters such as the plight of political dissidents or ethnic minorities like the Uighurs.

For its part, Treasury says it doesn't shrink from speaking frankly to the Chinese. Rather, its policy is to raise in private any issue that would be politically difficult for a country to address if it were seen as caving to foreign pressure. As for the strategic questions, say administration officials, the Chinese believe our interests broadly overlap on questions like climate change and nukes. The obstacle here isn't our lack of leverage but bureaucratic politics: It can be maddeningly difficult to get agreement from China's often diffuse decision-makers—a challenge the S&ED mitigates by forcing key players into the same room. Indeed, Clinton was able to ink a "memorandum of understanding" with the Chinese about the future shape of climate-change negotiations.

Of course, it's hard to believe that the economic and strategic parts of the relationship never bleed together. The American posture on, say, Taiwan or Tibet clearly rankles the Chinese leadership, and it stands to reason that they'd be less inclined to make economic concessions amid tension over these issues. On the other hand, China scrupulously avoids using its Treasury holdings to air such frustrations. The risk of self-sabotage is simply too great, especially as its pile of Treasuries has grown: Even a couple-percentage-point loss on a trillion-dollar portfolio translates to tens of billions of dollars.

Perhaps more interestingly, it turns out there's at least one way the recession has *increased* our leverage over the Chinese. For years, economists and policymakers around the world have worried about the structural imbalances in the global economy: The major exporting countries in Asia and Europe rely on American consumers to vacuum up their manufactured goods; in order to do that, American consumers have taken on vast quantities of debt. Suffice it to say, any arrangement that relies on a large group of people piling on debt for years on end will necessarily come to tears.

But, however much we've pleaded with the Chinese to stop leaning so heavily on American consumers and start leaning more on their own (whose saving rates are extraordinarily high and whose standard of living would improve substantially if they spent more), our efforts have largely been futile.

Part of the reason is that such "rebalancing" is incredibly difficult to pull off. The Chinese save such freakish amounts because consumer credit is scarce, insurance is rudimentary, and their social infrastructure is threadbare. They must often pay for houses in cash, and for medical procedures out of pocket. While reform has been on China's agenda for years, the pushback from interest groups can be intense—the country's own ministry of health has been known to sabotage expanded health coverage over parochial objections. Which is to say, absent some powerful impetus, reform is the kind of thing the Chinese always recognize they should do, even seem to want to do at times, but which they never get around to pursuing in earnest.

The beauty of the recession, such as it is, is that American nagging on this point no longer has the toothless character of a spousal plea for self-improvement. With imports initially plunging and U.S. saving rates way up, it's a lot easier to make the Chinese believe that the American consumer will no longer save them. "They sort of see the future, and they don't want to be as vulnerable," says Geithner. That leaves the Chinese with little choice but to move ahead on their reform agenda, some of which should benefit Americans by increasing demand for U.S. exports. If nothing else, this would explain the unusual Chinese receptiveness at the S&ED to ideas for boosting domestic demand—such as bank liberalization that would pay depositors a higher interest rate.

The day China consumes more, relies less on exports, and accumulates far fewer dollars as a result can't come soon enough. There's a certain mutually-assured-destruction quality to our current relationship—Larry Summers calls it the "balance of financial terror"—in which one false move by either side could bring down both economies, and probably the entire global financial system, too. This makes dialogue a necessity. But what it really does is make you pine for a way back from the edge. As *The Atlantic*'s James Fallows has pointed out, even if both sides behave responsibly, there's the persistent risk of miscalculation—or maybe a rumor that triggers a bond market sell-off China didn't intend. During the cold war, the hotline Kennedy and Khrushchev established was genuinely stabilizing, but it would have been far more stabilizing had the United States and Soviet Union stopped training thousands of nuclear warheads at one another. If, to stick with the analogy, the U.S.-China relationship is only in the early 1960s, then it's going to be a long couple of decades indeed. ◆

"The U.S. had all the answers once upon a time," says a senior Obama official. "But China's not the apprentice anymore."

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

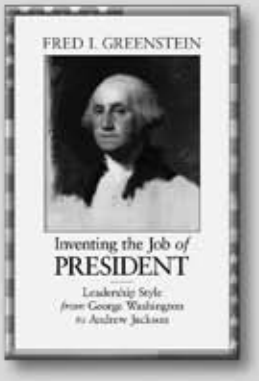
Crossing the Finish Line

Completing College at America's Public Universities

William G. Bowen, Matthew M. Chingos & Michael S. McPherson

"Addressing an issue that will determine America's leadership role in the world, *Crossing the Finish Line* should be at the top of everyone's reading list."—William Fitzsimmons, dean of admissions, Harvard University

Cloth $27.95 978-0-691-13748-3



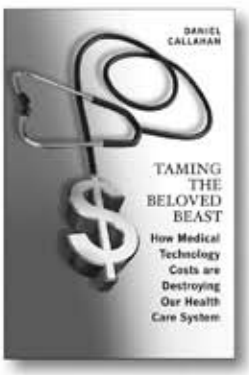
Inventing the Job of President

Leadership Style from George Washington to Andrew Jackson

Fred I. Greenstein

"Greenstein is hands down the best, most careful, and wisest presidential scholar."
—William Ker Muir, Jr., author of *The Bully Pulpit*

Cloth $19.95 978-0-691-13358-4 October



Taming the Beloved Beast

How Medical Technology Costs are Destroying Our Health Care System

Daniel Callahan

"An extraordinarily clear and important contribution. This book should be of interest to everyone who is involved in any way with health care policy and health reform issues."
—Leonard M. Fleck, Michigan State University

Cloth $29.95 978-0-691-14236-4 October

The Presidential Difference

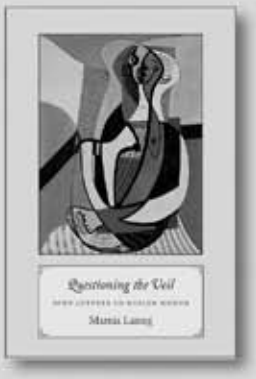
Leadership Style from FDR to Barack Obama

Third Edition

Fred I. Greenstein

"A perceptive view of the leadership qualities and the events that shaped the triumphs and tragedies of the modern presidency."
—Phil Gailey, *New York Times*

Paper $24.95 978-0-691-14383-5 October



Questioning the Veil

Open Letters to Muslim Women

Marnia Lazreg

"Lazreg addresses a controversial topic and takes intellectual risks. This little gem of a book is brilliant."
—Sondra Hale, University of California, Los Angeles

Cloth $22.95 978-0-691-13818-3 October

Republic.com 2.0

Cass R. Sunstein

"[A] refreshing counter to overly optimistic perspectives on the internet and democracy, and Sunstein turns Utopian visions of the internet . . . into a critical assessment of its potential for undermining democratic discourse."
—William Dutton, *Times Higher Education*

Paper $19.95 978-0-691-14328-6

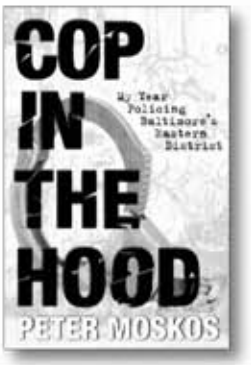
Codes of the Underworld

How Criminals Communicate

Diego Gambetta

"This innovative book shows Gambetta's nimble and subtle mind at its best. He combines striking analytical insights with rich ethnographic descriptions."
—Jon Elster, Columbia University

Cloth $35.00 978-0-691-11937-3



Cop in the Hood

My Year Policing Baltimore's Eastern District

Peter Moskos

With a new afterword by the author

"Riveting. . . . [A]n unsparing boys-in-blue procedural that succeeds on its own plentiful—and wonderfully sympathetic—merits."—*Atlantic*

Paper $16.95 978-0-691-14386-6

PRINCETON UNIVERSITY PRESS

800.777.4726
press.princeton.edu

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Stanley Kauffmann on Films

DEATH AND DAILINESS

From Germany comes a film about German terrorists. Fittingly stark and dynamic, it focuses on the Baader Meinhof group that flamed from about 1967 to 1977, and it offers its explanation of the group's existence. The clergyman father of one of the terrorists says that these radical young people were angered because Germany had learned so little about justice and equity from the Nazi era: the country just went back to pre-Hitler greed and exploitation and its own varieties of injustice—slippages that provoked the action to which his daughter was dedicated.

This outrage in young people—at their country's failure to learn sufficiently from the Nazi experience—explodes in violence. Political activity won't suffice: politicking, they feel, is what the Establishment wants them to do. These young radicals opt for arrant attack. They rob banks for funds, purchase arms, kidnap bosses, commit arson, and—if they think it necessary—kill. They hijack a Lufthansa plane. To protest the Vietnam war, they bomb two U.S. army bases in Germany. They hope to frighten the powerful into change and to arouse their fellow Germans in general. (The film doesn't mention the other prominent terrorist group at the time, the Red Brigade, composed of radical young Italians similarly outraged by their own country's lack of progress after fascism.)

The Baader Meinhof Complex was based on a book by Stefan Aust, who knew Ulrike Meinhof and some others in the group. The producer-adapter, Bernd Eichinger, and the director, Uli Edel (who also worked on the script), were in film school together in Munich during the early 1970s and were immersed in the thick, menacing atmosphere of the terrorist days. They say that they have long wanted to treat the subject, and after two quite different films, they felt the moment had come. It has come for their viewers, too. Their film is like an express-train ride through its subject, except that the view from the window is always disconcertingly sharp.

THE BAADER MEINHOF COMPLEX
Vitagraph Films

STILL WALKING
IFC Films

At least one memorable film has already been made about these terrorists. Margarethe von Trotta's *Marianne and Juliane* (1981), though it did not use the names Baader and Meinhof, evokes the mood of their era. A young woman who is staunchly liberal—feminist, pro-abortion, and so on—has a terrorist sister with whom she has a conflicted relationship. In time, for personal reasons, the liberal sister is drawn out of the periphery toward the activist center.

The Edel-Eichinger film plunges right into that center. In the Berlin of 1967, Meinhof, a left-wing journalist, becomes closely acquainted with two activists, Andreas Baader and his girlfriend Gudrun Ensslin. Even before she meets them, Meinhof is seething with anger at the society around her. (A prime cause: when students protest the fawning Berlin welcome of the tyrannical Shah of Iran, the police kill a protester.) Meinhof, though married and a mother, decides to join the terrorists. Her husband is sympathetic to her ideas but thinks he must take the children away. She concedes.

Meinhof and Baader and Ensslin, with a considerable number of others, form what the press calls the Baader Meinhof Group, possibly because Meinhof writes most of the propaganda. The group calls itself the Red Army Faction. Some of its members even go to Jordan for training in weaponry and tactics by Arab militants. They then embark on a program of violence that roils Germany and beleaguers the police. The film details many of the violent acts explicitly, and it all begins to seem too much until we recognize what the point is.

Mimesis. Edel and Eichinger want to reproduce in the experience of their film the same contradiction that the RAF created in life—a contradiction between our presumed agreement about what these terrorists loathe and our shock at what they do about it. To create this contrast, the producer and director have brought us closer to these characters, in their selves and interplay, than the media could possibly have done; and to keep the contradiction firm, they have also had to emphasize the other component—the rank violence.

The Kalashnikovs keep that violence stunning. The colors of the characters come from the cast. In fact, Martina Gedeck as Meinhof, Moritz Bleibtreu as Baader, and Johanna Wokalek as Ensslin are so fiercely intelligent and sure that they strengthen both sides of the contradiction. Bruno Ganz, in the script's most taking role, gives weighty, thoughtful presence to Horst Herold, the head of the Federal Criminal Investigation Agency, who keeps trying to read the RAF's mind.

Arrests and trials eventually come about. The trial of Baader and Meinhof and many of their friends goes on for almost two years, beginning in 1975. During the proceedings, Baader and his friends in the gallery do their irreverent best to mock the legal formalities. Meinhof is more grave. Incensed at the way in which this trial, to her, symbolizes and

ANTHONY RUSSO

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

sustains all that she has fought against, she bursts into fury. The judge orders her to be taken out. Not long after, she hangs herself in her cell.

Others of the RAF, also imprisoned, also commit suicide. In subsequent years some commentators have contended that the RAF people were murdered by the police, but their companions believe that they were suicides—people who had come to the end of their road. Baader and Ensslin, too, virtually promise suicide, promises that were later kept. Actually, the RAF continued its violence until the 1990s, but the film conveys the sense that, with the trial and these suicides, an era ended—an era that was, in its ideological genesis, a Nazi-caused phenomenon.

The picture itself ends abruptly. Its sudden finish confirms the Edel-Eichinger intent to mimic its subject by attacking convention—in their case, cinematic convention. Chiefly and potently, however, *The Baader Meinhof Complex* dramatizes an answer to a question that is asked of the Ganz character toward the close. "Why do people join the Red Army Faction?" an aide asks him. His reply is simple. "A myth," he says. That myth, we can infer, is the possible perfectibility of the world. Edel's swift, stabbing, intense film presents young radicals inebriated with that myth, who keep trying to progress toward perfection with increasingly desperate cruelties.

Still Walking is a Japanese film about the annual one-day meeting of a middle-class family. It is also a definition of the difference between soap opera and domestic drama. A soap opera wants to involve us in household happenings. But this Japanese film makes clear very early that what is said and done is only the means of getting to what it is really about. The characters are vivid enough, but the story isn't much: we are meant to concentrate—and do so willingly—on the lives that are being led.

We are in and around the home of a retired doctor, Kyohei, near Yokohama, with a view of the sea. Toshiko, his wife, is busily preparing food with her daughter. (The first shot is of a huge radish being peeled.) En route we meet the eldest living son, Ryota, who is bringing his new wife and her son (from a previous marriage) to meet his parents.

Kyohei, the old doctor, is gruff and cool, now and always. We assume that he is angry at age for forcing him into retirement, which is true but incomplete. He still resents—the right word—the fact that his eldest son, Junpei, was drowned fifteen years earlier while rescuing a child. This family meeting is their annual remembrance of Junpei's sacrifice. He was his father's favorite, and was to have become a doctor; Ryota, his successor (so to speak), is an art restorer currently unemployed.

The day and the dinner proceed more or less as expected, with hugs and small spats and laughter and languor. The one unusual element is the presence of an overweight and dull young man who is always invited to these occasions. He was the small boy for whom Junpei gave his life fifteen years earlier, and his presence—taciturnly—abrades the old doctor further. After this guest leaves, the family tries to resolve not to invite him to the next annual meeting but suspect that they will do it anyway.

The day includes a visit to Junpei's grave, with flowers. Later there is some fuss about who is going to sleep where in the pleasant but relatively small house. The next day the family breaks up once more into its subgroups. Each group, when alone, notes that this get-together is so close to New Year's Day that they don't need to gather again for the holiday.

A postlude caps the film and confirms its being. A few years have passed. Ryota and wife, who were urged by his mother to have a child, visit the cemetery with her son and the small daughter that they now have, to honor the graves of the doctor and his wife, both of whom died a few years after the gathering we attended. Then the camera ascends to show us the sea, the harbor, ships.

That view seems a deliberate reference to the last shot of Ozu's masterwork, *Tokyo Story*. In its lesser but authentic way, this new film is exploring the same subject: time. Passage through every finite day toward infinity. *Still Walking* is not as much a story, a drama, as merely a day spent with this family's doings—a moving reminder that we who are watching it are 114 minutes further along in the stuff of life when it is finished. Respectfully, the writer-director Hirokazu Kore-eda offers us his film as a companion's gentle embrace. ◆

Richard A. Posner
HOW I BECAME A KEYNESIAN

Second thoughts in a recession.

Until last September, when the banking industry came crashing down and depression loomed for the first time in my lifetime, I had never thought to read *The General Theory of Employment, Interest, and Money*, despite my interest in economics. I knew that John Maynard Keynes was widely considered the greatest economist of the twentieth century, and I knew of his book's extraordinary reputation. But it was a work of macroeconomics—the study of economy-wide phenomena such as inflation, the business cycle, and economic growth. Law, and hence the economics of law—my academic field—did not figure largely in the regulation of those phenomena. And I had heard that it was a very difficult book, which I assumed meant it was heavily mathematical; and that Keynes was an old-fashioned liberal, who believed in controlling business ups and downs through heavy-handed fiscal policy (taxing, borrowing, spending); and that the book had been refuted by Milton Friedman, though he admired Keynes's earlier work on monetarism. I would not have been surprised by, or inclined to challenge, the claim made in 1992 by Gregory Mankiw, a prominent macroeconomist at Harvard, that "after fifty years of additional progress in economic science, *The General Theory* is an outdated book.... We are in a much better position than Keynes was to figure out how the economy works."

We have learned since September that the present generation of economists has not figured out how the economy works. The vast majority of them were blindsided by the housing bubble and the ensuing banking crisis; and misjudged the gravity of the economic downturn that resulted; and were perplexed by the inability of orthodox monetary policy administered by the Federal Reserve to prevent such a steep downturn; and could not agree on what, if anything, the government should do to halt it and put the economy on the road to recovery. By now a majority of economists are in general agreement with the Obama administration's exceedingly Keynesian strategy for digging the economy out of its deep

Richard A. Posner is a judge on the U.S. Court of Appeals for the Seventh Circuit and a senior lecturer at the University of Chicago Law School.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

hole. Some say the government is not doing enough and is too cozy with the bankers, and others say that it is doing too much, heedless of long-term consequences. There is no professional consensus on the details of what should be done to arrest the downturn, speed recovery, and prevent (so far as possible) a recurrence. Not having believed that what has happened could happen, the profession had not thought carefully about what should be done if it did happen.

Baffled by the profession's disarray, I decided I had better read *The General Theory*. Having done so, I have concluded that, despite its antiquity, it is the best guide we have to the crisis. And I am not alone in this judgment. Robert Skidelsky, the author of a superb three-volume biography of Keynes, is coming out with a book titled *Keynes: The Return of the Master*, in which he explains how Keynes differed from his predecessors, the "classical economists," and his successors, the "new classical economists" and the "new Keynesians"—and points out that the new Keynesians jettisoned the most important parts of Keynes's theory because they do not lend themselves to the mathematization beloved of modern economists. Skidelsky's summary of what is distinctive in Keynes's theory is excellent.

Skidelsky's book is flawed by its insistence on asking what Keynes would say if he were alive today (to which the only sensible answer is that no one knows), and more seriously by its insistence that "deep down," Keynes "was not an economist at all"—that he "put on the mask of an economist to gain authority, just as he put on dark suits and homburgs for life in the City" (London's Wall Street). Keynes was the greatest economist of the twentieth century. To expel him from the profession is to confirm the worst prejudices of present-day economists by embracing their bobtailed conception of their field.

THE GENERAL THEORY is a hard slog, though not because it is mathematical. There is some math, but it is simple and, with the exception of the formula for the "multiplier" (of which more shortly), it is incidental to Keynes's arguments. A work of elegant prose, the book sparkles with aphorisms ("It is better that a man should tyrannize over his bank balance than over his fellow-citizens") and rhetorical flights (most famously that "madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back"). But it also bristles with unfamiliar terms, such as "unit-good" (an hour's employment of ordinary labor), and references to unfamiliar economic institutions, such as a "sinking fund" (a fund in which money is accumulated to pay off a debt). And it brims with digressions, afterthoughts, and stray observations, such as: "the two most delightful occupations open to those who do not have to earn their living [are] authorship and experimental farming." Two important chapters, dealing with the "trade cycle" (that is, the business cycle—booms and busts) and with mercantilism, usury, and thrift, are deferred to the last part of the book, which is misleadingly titled "Short Notes Suggested by the General Theory."

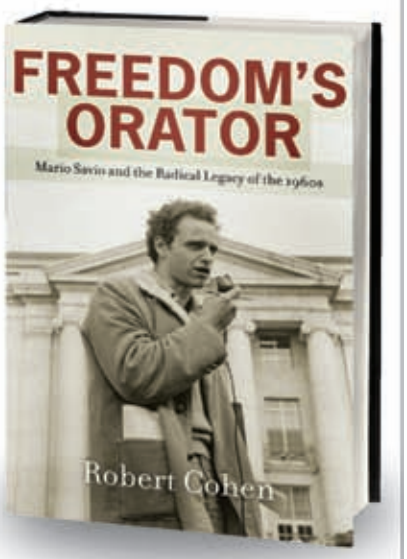
It is an especially difficult read for present-day academic economists, because it is based on a conception of economics remote from theirs. This is what made the book seem "outdated" to Mankiw—and has made it, indeed, a largely unread classic. (Another very distinguished macroeconomist, Robert Lucas, writing a few years after Mankiw, dismissed *The General Theory* as "an ideological event.") The dominant conception of economics today, and one that has guided my own academic work in the economics of law, is that economics is the study of rational choice. People are assumed to make rational decisions across the entire range of human choice, including but not limited to market transactions, by employing a form (usually truncated and informal) of cost-benefit analysis. The older view was that economics is the study of the economy, employing whatever assumptions seem realistic and whatever analytical methods come to hand. Keynes wanted to be realistic about decision-making rather than explore how far an economist could get by assuming that people really do base decisions on some approximation to cost-benefit analysis.

The General Theory is full of interesting psychological observations—the word "psychological" is ubiquitous—as when Keynes notes that "during a boom the popular estimation of [risk] is apt to become unusually and imprudently low," while during a bust the "animal spirits" of entrepreneurs droop. He uses such insights without trying to fit them into a model of rational decision-making.

An eclectic approach to economic behavior came naturally to Keynes, because he was not an academic economist in the modern sense. He had no degree in economics, and wrote extensively in other fields (such as probability theory—on which he wrote a treatise that does not mention economics). He combined a fellowship at Cambridge with extensive government service as an adviser and

The first
BIOGRAPHY OF MARIO SAVIO

"This biography elegantly interweaves the various elements of this complex human being: his gift of speech, the profundity of his thought, his spirituality, his strong aversion to dogma, and above all, his unshakable moral core."—Howard Zinn, author of *A People's History of the United States*



"*Freedom's Orator* is a brilliant biography and history that will restore Mario Savio to his rightful place among the Sixties' great orators and be of use to scholars and students for generations to come."
—Tom Hayden, author of *The Long Sixties*

AVAILABLE WHEREVER BOOKS ARE SOLD
Visit us at www.oup.com/us

OXFORD
UNIVERSITY PRESS

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

high-level civil servant, and was an active speculator, polemicist, and journalist. He lived in the company of writers and was an ardent balletomane.

Keynes's theory, and its application to our current economic plight, is best understood if one bears in mind one historical fact and three claims that he made in the book. The historical fact is that England, between 1919 and 1939, experienced persistent high unemployment—never less than 10 percent, and 15 percent in 1935, when Keynes was completing his book. Explaining the persistence of unemployment was the major task that Keynes set himself. Though he famously declared that "in the long run, we are dead," he tried to solve a problem that, already when he wrote, had had a pretty long run.

The three claims are, first, that consumption is the "sole end and object of all economic activity," because all productive activity is designed to satisfy consumer demand either in the present or in the future. "Consumption" is not in the title of the book, however, because the only thing that interested Keynes about it was how much of their income people allocated to it—the more the better, as we will see. The second claim is the importance (and the deleterious effect) of hoarding. People do not save just to be able to make a specific future expenditure; they may also be hedging against uncertainty. And the third claim, related to the second, is that uncertainty—in the sense of a risk that, unlike the risk of losing at roulette, cannot be calculated—is a pervasive feature of the economic environment, particularly with respect to projects intended to satisfy future consumption.

A nation's annual output, which is also the national income, is the market value of all the goods (and services, but to simplify the discussion I will ignore them here) produced in a year. These goods are either consumption goods, such as the food people buy, or investment goods, such as machine tools. What people do not spend on consumption goods they save: income minus consumption equals savings. Since income minus consumption also equals investment, savings must, Keynes insists, equal investment. But equating savings with investment is confusing. If you stuff money under your mattress, you are saving, but in what sense are you investing? If you buy common stocks, you are investing, but the contribution of your investment to the productive capital employed in building a factory is attenuated.

At the very least, we should (and Keynes implicitly does) distinguish between enabling productive investments and actually making them; or, equivalently, between passive investment and active investment. If you deposit some of your savings in a bank, the bank—not you—will decide whether to lend the money to a businessman to invest in his business (or to an individual to invest in buying a capital asset, such as a house). Still, the money is invested. Even the money you stuff under your mattress can be considered a form of investment, for in all likelihood it will be spent eventually (though perhaps not for generations), and thus, like all investment, it is an aid to future consumption. But as in this example, passive investment may take a long time to stimulate active investment.

The lag can retard economic growth. Income spent on consumption, in contrast to income that is saved, becomes income to the seller of the consumption good. When I buy a bottle of wine, the cost to me is income to the seller, and what he spends out of that income will be income to someone else, and so on. So the active investment that produced the income with which I bought the wine will have had a chain-reaction—what Keynes calls a "multiplier"—effect.

And here is the tricky part: the increase in income brought about by an investment is greater the higher the percentage of income that is spent rather than saved. Spending increases the incomes of the people who are on the receiving end of the spending. This derived or secondary effect of consumption is greater the higher the percentage of a person's income that he spends, and so it magnifies the income-generating effect of the original investment. If everyone spends 90 cents of an additional dollar that he receives, then a $1 increase in a person's income generates $9 of additional consumption ($.90 + $.81 [.9 x $.90] + $.729 [.9 x $.81], etc. = $9), all of which is income to the suppliers of consumer goods. If only 70 cents of an additional $1 in income is spent, so that the first recipient of the expenditure spends only 49 cents of the 70 cents that he received, the second 34.4 cents, and so on, the total increase in consumption as a result of the successive waves of spending is only $1.54, and so the investment that got the cycle going will have been much less productive. In the first example, the investment multiplier—the effect of investment on income—was 10. In the second example it is only 2.5. The difference is caused by the difference in the propensity to consume income rather than save it. (No one today, by the way, thinks that investment multipliers are that high.)

For Keynes, in other words, it is consumption, rather than thrift, that promotes economic growth. And here the second key claim of Keynes kicks in: that people often save with no particular aim of future spending—they hoard. Keynes mentions a host of reasons why people save that may not promote active investment (he also discusses the analogous motives of businesses), at least in the short run. Savers may want to "bequeath a fortune," "satisfy pure miserliness," "build up a reserve against unforeseen contingencies," "enjoy a sense of independence and the power to do things, though without a clear idea or definite intention of specific action," or, implicitly, obtain a reputation for being thrifty. (This latter motive is reminiscent of the "Protestant ethic" of which Max Weber wrote.) Since Keynes was centrally concerned with unemployment, he was suspicious of saving because, as we just saw, the greater the percentage of income that is consumed rather than saved, the greater the demand for goods, and therefore the greater output, and so the lower the unemployment rate.

But it is here that Keynes's equating saving with investing becomes particularly confusing. Isn't investing a good thing? It is what drives income. And if investment is a good thing, mustn't saving, being synonymous with investing (as Keynes has told us), be a good thing, too? Keynes's answer, though it is not stated as clearly as one would wish, is that investing increases output, and therefore employment, only when it finances the creation of productive capital. When it takes the form of hoarding, the link between saving and promoting economic activity is broken, or at least frayed.

The third claim that I am calling foundational for Keynes's theory—that the business environment is marked by uncertainty in the sense of risk that cannot be calculated—now enters the picture. Savers do not direct how their savings will be used by entrepreneurs; entrepreneurs do, guided by the hope of making profits. But when an investment project will take years to complete before it begins to generate a profit, its prospects for success will be shadowed by all sorts of unpredictable contingencies, having to do with costs, consumer preferences, actions

ANTHONY RUSSO

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

by competitors, government policy, and economic conditions generally. Skidelsky puts this well in his new book: "An unmanaged capitalist economy is inherently unstable. Neither profit expectations nor the rate of interest are solidly anchored in the underlying forces of productivity and thrift. They are driven by uncertain and fluctuating expectations about the future." Only what Keynes called "animal spirits," or the "urge to action," will persuade businessmen to embark on such a sea of uncertainty. "If human nature felt no temptation to take a chance, no satisfaction (profit apart) in constructing a factory, a railway, a mine or a farm, there might not be much investment merely as a result of cold calculation."

But however high-spirited a businessman may be, often the uncertainty of the business environment will make him reluctant to invest. His reluctance will be all the greater if savers are hesitant to part with their money because of their own uncertainties about future interest rates, default risks, and possible emergency needs for cash to pay off debts or to meet unexpected expenses. The greater the propensity to hoard, the higher the interest rate that a businessman will have to pay for the capital that he requires for investment. And since interest expense is greater the longer a loan is outstanding, a high interest rate will have an especially dampening effect on projects that, being intended to meet consumption needs beyond the immediate future, take a long time to complete.

The "sinking funds" I mentioned illustrate institutional hoarding: money is accumulated to pay off a debt in the future rather than being spent, and its unavailability for investment causes interest rates to rise. High interest rates discourage active investment while making passive investment attractive, and thus deliver a one-two punch to consumption. True, high interest rates discourage the hoarding of cash by increasing the opportunity cost of such hoarding, but they also encourage forms of passive investment, such as purchasing government bonds, that may have only a remote effect in encouraging active investment.

Keynes's analysis provides an explanation—though there is debate among economists whether it is the correct one—for England's persistent high unemployment in the interwar period, or more precisely for the component that represented involuntary unemployment, the plight of unemployed workers who would have preferred to work at a wage below the prevailing rate than to be on the dole. One might think that wages would have fallen to a level at which anyone who wanted a job could have found one. But Keynes pointed out that since workers are a high proportion of all consumers, a fall in the wage level will reduce incomes, and therefore reduce consumption and investment, unless prices fall proportionately. They would be likely to fall somewhat, because producers' labor costs will be lower. But a general fall in the price level—deflation—imperils economic stability, and actually cutting workers' wages to make room for the unemployed is a surefire formula for industrial strife.

And workers are not fungible. A factory that employs 100 highly skilled workers may have a lower average cost of production than one that employs 120 less-skilled workers at a lower wage. Only if demand for goods is high may the market have room for a firm that, because it employs those less skilled workers, has higher costs of production than the existing firm.

Thus a high level of involuntary unemployment could be, as Keynes showed, an equilibrium, rather than a temporary result of the business cycle. His analysis casts a particularly bright light on the cyclical downturns that we call recessions, or in extreme cases depressions. For when the demand for goods and services falls, as in the present downturn, the economic environment becomes unsettled and even the near future becomes unpredictable. This dampens businessmen's animal spirits and causes consumers to hoard—and businessmen as well. For when the urge to action deserts them, they build up their cash balances, in lieu of active investment, in order to hedge against uncertainty. Owing to uncertainty, businessmen even in the best of times lack "strong roots of conviction" in their estimate of what the future holds, and so a sudden change in economic conditions can paralyze them. If so, a downward spiral will develop, as falling demand and falling investment reinforce each other, causing layoffs that reduce incomes and therefore consumption and production, and so induce more layoffs.

But the government may be able to arrest the decline—another of Keynes's central ideas, and one strongly resisted by the conservative economists of his time, as of today. It can reduce interest rates (by buying government bonds or other debt for cash, which increases the amount of money that banks are permitted to lend) in an effort to reduce the costs of active investment and thus encourage employment. Keynes urged this approach. But he also pointed out that it might not work well—as we have learned in the current downturn. The banks may lack confidence in "those who seek to borrow from them," so that "while the weakening of credit is sufficient to bring about a collapse, its strengthening, though a necessary condition of recovery, is not a sufficient condition." In fact, banks in America today are hoarding, rather than lending, most of the cash that they have received from the government's bailouts. The hoard may make the banks a little freer with lending, but the effect on economic activity, at least in the short run, may be tepid.

Fortunately, there is more that government can do to arrest a downward economic spiral besides pushing down interest rates. It can offset the decline in private consumption and investment in a recession or a depression by increasing public investment. When we say that the government builds highways, we mean it buys highways from private contractors. And the more it buys, the more that investment—and because of the multiplier effect, the more that income, output, and employment—are stimulated. And because private decisions to invest and to consume are influenced by confidence in the future, or the lack thereof, the government must do everything it can to convince businessmen and consumers that it is resolute and competent in working for economic recovery. An ambitious public-works program can be a confidence builder. It shows that government means (to help) business. "The return of confidence," Keynes explains, "is the aspect of the slump which bankers and businessmen have been right in emphasizing, and which the economists who have put their faith in a 'purely monetary' remedy have underestimated." In a possible gesture toward Roosevelt's first inaugural ("we have nothing to fear but fear itself"), Keynes remarks upon "the uncontrollable and disobedient psychology of the business world."

But for a confidence-building public-works program to be effective in arresting an economic collapse, the government must be able to finance its increased spending by means that do not reduce private spending commensurately. If it finances the program by taxation, it will be draining cash from the economy at the same time that it is injecting cash into it. But if it borrows to finance the program (deficit spending), or finances it with new money created by the Federal Reserve, the costs may be deferred until the economy is well on the way to recovery and

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

can afford to pay them without endangering economic stability. When investors passively save rather than actively invest, government can borrow their savings (as by selling them government bonds) and use the money for active investment. That is the essential Keynesian prescription for fighting depressions.

Keynes's emphasis on consumption as the driver of active investment and hence of economic growth may seem to give his theory a hedonistic flavor. He was indeed hostile to thrift, which is another name for hoarding. We have seen the damaging effects of thrift in the current downturn, in which rich people's forswearing luxury purchases in the name of thrift has reduced employment in the retail sector, thus deepening the downturn. This is an example of the "paradox of thrift." "Prodigality is a vice that is prejudicial to the Man, but not to trade," in the words of the seventeenth-century economist Nicholas Barbon, quoted by Keynes. (The full paradox of thrift is that, if incomes fall far enough because people are saving rather than consuming, savings will actually decline.)

Keynes commends FDR for having destroyed agricultural stocks during the Great Depression, since sales from existing inventories do not stimulate active investment, but are actually a form of disinvestment. He even discusses sympathetically, though ultimately he rejects, the curious proposal of "stamped money," whereby people would be required to have their currency stamped periodically at a government office in order to remain legal tender, because the bother of having to get one's money stamped would have the effect of a tax on hoarding.

All this may seem like an incitement to profligacy, consistent with Keynes's rather bohemian private life as a charter member of the Cambridge Apostles and the Bloomsbury group. But nothing in his theory limits consumption to the purchase of frivolous private goods, or indeed to private goods of any kind. I gave the example of a public highway; other examples are the purchase of military equipment for national defense and the public subvention of education and art. And while he famously (or notoriously) argued the value of unproductive projects—or so they would seem to us—such as the building of the Egyptian pyramids, on the ground that they provided employment, which increased consumption (the workers, even if they were slaves, had to be fed and clothed and housed), he preferred that governments undertake productive projects.

Correctly anticipating the rapid growth of living standards, moreover, Keynes predicted that within a century people's material wants would be satiated, and so per capita consumption would stop growing. People would work less, but only because their need for income, and more important their desire for it, was less. And then the challenge to society would be the management of unprecedented voluntary leisure. This was a popular 1930s theme—think of Huxley's *Brave New World*—but it underestimated the ability of business to create new wants, and new goods and services to fulfill them.

That was merely a mistake, an oddity in Keynes's belief in the possibility of perpetual boom. He has wise words, which Alan Greenspan and Ben Bernanke could with profit have heeded earlier in this decade, about the need to raise interest rates to prick an asset-price bubble before it gets too large. Yet just a few pages earlier he remarked that "the remedy for a boom is not a higher rate of interest but a lower rate of interest! For that may enable the so-called boom to last." (That may have been what Greenspan thought!) The statements can be reconciled by observing that as long as there is involuntary unemployment, low interest rates, by stimulating active investment and therefore production without raising labor costs, should not produce inflation. But we have just seen, in the United States of the 2000s, how even if labor costs are steady, low interest rates can produce an asset-price inflation (the housing and credit bubbles) that can precipitate an economic collapse. Keynes had earlier in his career written prophetically about the potentially disastrous effects of inflation. There is almost no mention of inflation in *The General Theory*, but he does say what many of his successors forgot—that when an economy no longer has any involuntary unemployment, further efforts to stimulate demand will merely cause inflation.

Perpetual-boom thinking illustrates the left-leaning utopian strain in *The General Theory*. This was what made Keynes a bête noire for conservatives, but it charms Skidelsky, who devotes the last chapters of his book to celebrating Keynes as a "green," a philosopher of limits to growth, of "the good life" lived simply, even of the end of economics. Recall Keynes's erroneous prediction that within a century people's material wants would be satiated. When that happened, the demand for capital (to finance consumption) would plummet and rentiers (people who live on income from passive investments, such as stocks or bonds, and thus are hoarders) would be wiped out—a prospect that delighted Keynes, who looked forward to "the euthanasia of the rentier," though fortunately he did not mean this literally. He questioned free trade—that holy of holies of conventional economists—by pointing out that a country whose people had a low propensity to consume could stimulate investment by depreciating its currency so that its exports were attractive, because that would encourage its industries to invest in producing for foreign consumption and therefore to employ more workers. The country would accumulate foreign currency that it could use to invest abroad—the policy that China has been following lately, with pretty good results. He even had kind words for usury laws, arguing that they had reduced interest rates and thus discouraged hoarding. He favored a heavy estate tax, reasoning that it would increase consumption by reducing accumulation for bequests. (The standard economic argument *against* the estate tax is identical—it encourages "wasteful" consumption!)

Although there are other heresies in *The General Theory*, along with puzzles, opacities, loose ends, confusions, errors, exaggerations, and anachronisms galore, they do not detract from the book's relevance to our present troubles. Economists may have forgotten *The General Theory* and moved on, but economics has not outgrown it, or the infor-

Wrong Sonnet: Multiplicity

My husband asks Why don't you write a poem
about why you like Virginia Woolf when
nobody else does.
The excruciating detail of a marriage
is what I like, I say, the drifting
in and out of Clarissa's mind and into Peter's,
how they notice the flow of London traffic
as a living animal, how they feel
themselves distributed in sub-atomic
bits into each other and over the city's squares
and towers, out into the hedgerows, the waves.
But Clarissa wasn't married to Peter
he would say, if he'd read it, she was
married to Richard. And I'd say
maybe she was, maybe she was.

KATHLEEN WINTER

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

mal mode of argument that it exemplifies, which can illuminate nooks and crannies that are closed to mathematics. Keynes's masterpiece is many things, but "outdated" it is not. So I will let a contrite Gregory Mankiw, writing in November 2008 in *The New York Times*, amid a collapsing economy, have the last word: "If you were going to turn to only one economist to understand the problems facing the economy, there is little doubt that the economist would be John Maynard Keynes. Although Keynes died more than a half-century ago, his diagnosis of recessions and depressions remains the foundation of modern macroeconomics. His insights go a long way toward explaining the challenges we now confront.... Keynes wrote, 'Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slave of some defunct economist.' In 2008, no defunct economist is more prominent than Keynes himself." ◆

David Nirenberg
LOVE AND CAPITALISM

CARITAS IN VERITATE: ON INTEGRAL HUMAN DEVELOPMENT IN CHARITY AND TRUTH
By Pope Benedict XVI
(Ignatius Press, 157 pp., $14.95)

I.

Are we facing an economic crisis? I do not mean the crisis of the credit markets that has wiped trillions off the global balance sheet and plunged the world into recession. I mean a spiritual crisis, of which the crash is but a symptom. According to Rowan Williams, Archbishop of Canterbury, we are in the midst of a "late capitalist ... countdown to social dissolution and the triumph of infinite exchangeability and timeless, atomized desire." The only way to interrupt this countdown, he suggests, is for all of us to pattern our actions on divine love. A number of intellectuals—ranging from former Maoists such as Alain Badiou to dialectical materialists such as Slavoj Žižek—have made similar diagnoses, and proposed similar solutions. And to their company must now be added the pope.

With his first encyclical—*Deus Caritas Est,* or *God is Love*, in 2006—Benedict XVI gave notice that he intended to make the struggle against this crisis a cornerstone of his pontificate. Now, with his new encyclical *Caritas in Veritate: On Integral Human Development in Charity and Truth*, the Vicar of Rome has given us his manifesto on the need for love in a globalizing age. "Love—*caritas*—is an extraordinary force," he tells us. Without love "there is no social conscience and responsibility, and social action ends up serving private interests and the logic of power, resulting in social fragmentation, especially in a globalized society at difficult times like the present." *Caritas*—the word means both love and charity in Latin—is the force that ties us together in society. "To love someone is to desire that person's good and to take effective steps to secure it." Owing to this love we strive for "the common good," the good of "'all of us' ... individuals, families, and intermediate groups who together constitute society." Without love we become isolated and alienated, "a 'stranger' in a random universe." In fact, the lack of love is itself the cause of material deprivation: "if we look closely" at poverty, "even its material forms," we see that it is "born from isolation, from not being loved or from difficulties in being able to love. Poverty is often produced by a rejection of God's love."

But not just any love will do. Love, Benedict instructs, "needs to be understood, confirmed, and practiced in the light of truth," something that is too often forgotten in our "social and cultural context which relativizes truth ... showing an increasing reluctance to acknowledge its existence." He goes on: "Only in truth does charity shine forth, only in truth can charity be authentically lived.... Without truth, charity degenerates into sentimentality. Love becomes an empty shell, to be filled in an arbitrary way. In a culture without truth, this is the fatal risk facing love. It falls prey to contingent subjective emotions and opinions, the word 'love' is abused and distorted, to the point where it comes to mean the opposite."

And not just any truth will do. Jesus Christ "is the Truth" (John 14:6); and "Charity in truth" is "the Face of his Person." Only in the truth of God's word (*logos*) is dialogue (*diá-logos*) "authentic," and only that truth makes genuine communication and community possible. "Adhering to the values of Christianity," the pope explains, "is not merely useful but essential for building a good society and for true integral human development. A Christianity of charity without truth would be more or less interchangeable with a pool of good sentiments, helpful for social cohesion, but of little relevance.... There would no longer be any real place for God in the world. Without truth, charity is confined to a narrow field devoid of relations. It is excluded from ... promoting human development of universal range, in dialogue between knowledge and praxis." In sum, only "love in truth," true love, Christian love, can bring about authentic "social, juridical, political, and economic" development.

The blogosphere—a profane realm if ever there was one—bristles with criticism of this or that aspect of the pope's specific recommendations. Some shake their heads at his call for a strengthening of international governance and the United Nations. Others, conversely, are disappointed in his stress on the ongoing sovereignty of states, and in his insistence that "the governance of globalization must be marked by subsidiarity." Still others, such as Peter Steinfels in *The New York Times,* never even engage the contents, but complain instead about the difficulty of the prose. But so far as I can tell, nobody is much interested in debating the crucial argument that runs through Benedict's encyclical: the fundamental claim that economic exchange requires love.

This silence is odd, given that nowadays, in the midst of a crisis of confidence in the ability of markets to regulate themselves, we hear any number of calls for their moral reorientation. Princeton University, for example, recently hosted a conference on "Natural Law and Economics." One might therefore expect a "value-oriented" approach from a personage as prominent as the pope to attract serious discussion. Perhaps the problem is that believers treat the economic relevance of God's love as self-evident, while non-believers (especially those trained as economists) consider it absurd. Both, I think, are wrong. Benedict is an influential voice asking a basic question about our markets and our societies: can the values they require to function properly be produced from within themselves, or must those values come from beyond themselves? His question, and his answer, deserve our critical attention.

David Nirenberg is the Deborah R. and Edgar D. Jannotta Professor in history and the John U. Nef Committee on Social Thought at the University of Chicago.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

II.

Far from irrelevant, the question that Benedict is posing about the proper relationship between love and markets may well be the oldest one in economics, though no professional would ask it today. Plato fired an early salvo in his *Laws*, writing that "there is an evil, great above all others, which most men have implanted in their souls.... It is the evil indicated in the saying that every man is by nature a lover of self, and that it is right that he should be such." According to Plato, this self-love, once set loose, knows no bounds: "when [men] desire, they desire without limit ... and when they can make moderate gains, they prefer to gain insatiably." In pursuit of profit, every individual attempts to exact the highest possible price, treating fellow citizens not as friends but as "foemen," thereby destroying the love of fellow citizens that is necessary for the common good of the polity. In order to promote the love of the common good over the love of self, Plato banned the citizens of his ideal city from trading with each other, assigning foreigners to carry out the misanthropic work of the markets.

Athenians were not the only ones worried about the place of love in economics. At more or less the same time as Plato was writing—give or take a few centuries—and in a not-too-distant neighborhood of the Mediterranean, Yahweh was instructing his people how to deal with the same problem. If they followed his commandments, he promised, they would have a positive balance of payments (Deuteronomy 15:5-6). But chief among those commandments was to "love God with all your heart, and your neighbor as yourself" (Leviticus 19:18). God was clearly worried that his people, left to their own devices, would prefer the wealth they might amass in the world to either of these two affections. Hence he established some strict principles to govern how the resources of this "nation of priests" should be shared among its members. He even provided the economy of ancient Israel with a reset button. Every fifty years, at the Jubilee, all debts would be forgiven, all accumulations of land re-distributed into their original allotments: what a modern philosopher might call a "return to the starting gate" system of distributive justice.

Christianity married the concerns of Athens and Jerusalem, adopting, adapting, and adding others to them. Jesus himself was studiously indifferent to the business of getting and spending—when he needed a coin to pay his taxes, he drew it from the mouth of a fish—and actively hostile to the accumulation of capital. "It is easier for a camel to pass through a needle's eye, than for a rich man to enter the kingdom of heaven" (Matthew 19:24). Far from short-term, his investment horizon was eternal: "store not your treasure on earth, where moth and rust consume and where thieves break in and steal, but store for yourselves treasure in heaven" (Matthew 6:19-20). This widening of the distance between heavenly and earthly goods threatened to reverse the traditional metrics, making prosperity in this life an index not of the properly pious love of God and neighbor, but of the one thing every would-be Christian had to overcome: self-love. "If any man will come after me, let him deny himself.... For he that will save his life shall lose it.... For what shall it profit a man, if he gain the whole world and suffer the loss of his own soul? What exchange shall a man give for his soul?" (Matthew 16:24-26)

Given these strictures, it is small wonder that by the Middle Ages, "merchant" and "Christian" were nearly mutually exclusive terms. In the words of Gratian's *Decretum*, the foundational work of medieval canon law: "a merchant can rarely or never please God. And therefore no Christian should be a merchant, and, if he wishes to be one, he should be expelled from the Church." Or in the more modern and moderate language of a Pius XI: "What will it profit to teach [men] sound principles of economic life if in unbridled and sordid greed they let themselves be swept away by their passion for property, so that 'hearing the commandments of the Lord they do all things contrary'?"

In short, for more than two thousand years, self-love was among the most stigmatized sentiments, thought to stand in stark opposition to the love of God and neighbor, and therefore to be the greatest enemy of a godly and well-ordered economy. Today, of course, self-love—or self-interest, as we prefer to call it—is the governing principle of all mainstream economics, widely believed to be the only sentiment capable of maximizing the common good by coordinating human industry and distributing its fruits as efficiently as possible. This reversal of a millennial moral consensus must surely rank among the greatest revolutions in human thought, and it happened with astonishing rapidity.

In the early eighteenth century, when Bernard Mandeville published his *Fable of the Bees: or, Private Vices, Publick Benefits*, his suggestions were met with public outcry and with prosecutions for immorality. But the same century would celebrate the appearance of Adam Smith's *The Wealth of Nations* in 1776. Smith's arguments for the sound functioning of markets were predicated on the prerequisites of his earlier *Theory of Moral Sentiments*, but within another century the more fervent advocates of markets would forgo moral sentiments altogether, preferring to ground society entirely in self-interest and its rights of contract and property.

There were alternatives to this view. Marx, for example, understood the purely self-interested exchanges of a society oriented around private property to be the enemies of true humanism. As he put it in his early notes on the economic writings of James Mill: "the mediating process between men engaged in exchange is not a social or a human process, not *human relationship*." Marx posited an alternative society, one without private property, one that "carried out production as human beings," for the sake of relation rather than exchange. The benefits that Marx imagined for such production sound oddly similar to those that Benedict is seeking: "In my production ... I would have been for you the *mediator* between you and the species, and therefore would become recognized and felt by you yourself as a completion of your own essential nature and as a necessary part of yourself, and consequently would know myself to be confirmed both in your thought and in your love." Only within such a society can I realize "my true nature, my *human* nature, my *communal* nature."

For roughly a century, Marxism and its ideological kin provided a powerful political antagonist to the free market. But with the collapse of Marxism two decades ago, the economic victory of self-love seemed complete. It is this victory that Benedict XVI is questioning, and he is far from the first pope to do so. Leo XIII laid the modern foundations for Catholic economics with his encyclical of 1890, "*Rerum Novarum*: on the Rights and Duties of Capital and Labor." That document conceded the necessary power of contract and market, but subjected it to the higher law of "natural justice": "Let the working man and the employer make free agreements, and in particular let them agree freely as to wages; nevertheless there underlies a dictate of natural justice more imperious and ancient than any bargain between man and man." Leo's encyclical proved so important that later popes often issued their encyclicals on economic topics on

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the anniversaries of Leo's teaching (Pius XI's *Quadragesimo anno,* in the fortieth year, in 1931, or John Paul II's *Centesimus annus*, in the hundredth year, in 1991).

Reading through this thick stack of encyclicals, one certainly finds prescriptions that seem out of date, such as the strictures, in Pius XI's encyclical, against women's engagement "in gainful occupations outside the home to the neglect of their proper cares and duties." Others—such as this one by the same pontiff—sound as relevant as they did in 1931:

> The easy gains that a market unrestricted by any law opens to everybody attracts large numbers to buying and selling goods, and they, their one aim being to make quick profits with the least expenditure of work, raise or lower prices by their uncontrolled business dealings so rapidly according to their own caprice and greed that they nullify the wisest forecasts of producers. The laws passed to promote corporate business, while dividing and limiting the risk of business, have given occasion to the most sordid license. For We observe that consciences are little affected by this reduced obligation of accountability; that furthermore, by hiding under the shelter of a joint name, the worst of injustices and frauds are penetrated; and that, too, directors of business companies, forgetful of their trust, betray the rights of those whose savings they have undertaken to administer.

And one finds also that pontiffs have often disagreed on the specific policy implications of the moral values that they invoke. Leo, for example, stressed that "excessive taxation" was against natural law, whereas Paul VI, in his famous *Populorum Progressio*, or *The Development of Peoples*, in 1967, urged the rich to examine their consciences and "pay higher taxes, so that public authorities may expand their efforts in the work of development." Benedict now suggests—true to his principle of "subsidiarity"—that each taxpayer should be allowed to designate how his or her taxes are spent. (I suspect that the result would make California look well-governed.) But despite the shifting sands of detail, papal economics are built upon a shared bedrock of belief: the conviction that material prosperity is important, but that humans were created for a higher good; that they cannot escape the dangers of mere materialism and achieve that higher good without God's help; and finally that the price of failure in this effort is nothing less than the loss of our humanity.

III.

Benedict's teaching differs from that of his predecessors in at least two important ways. The first is evident in the key term in his analysis: "love," rather than "justice," "natural law," or "human reason," the terms that were favored by some of his predecessors. Benedict does want economic exchange governed by some standard of distributive justice. He wants much more than that. In addition to "contracts," "just laws, and forms of redistribution governed by politics," he maintains, "economic life . . . needs works redolent of the spirit of gift." "In commercial relationships the principle of gratuitousness and the logic of gift as an expression of fraternity can and must find their place within normal economic activity." All of us, whether producers, consumers, governors, or financiers, should make room for this "logic of gift" as we carry out our "specific social responsibility."

As Wal-Mart shoppers, for example, we must divide our attention between 1) a self-interest in the lowest possible price for whatever object we desire; and 2) the needs of that object's producers, of the environment in and from which it was made, and of the moral and fiscal balance of global trade (hence "consumers should be continually educated regarding their daily role, which can be exercised with respect for moral principles without diminishing the intrinsic economic rationality of the act of purchasing"); and 3) an openness to the loving "spirit of the gift." Benedict is not simply suggesting a moral yardstick for the marketplace. He is claiming that every commercial exchange needs to become a loving act modeled on the gratuitous gift of Jesus Christ. When we achieve that, he promises, we will be able to "shape the *earthly city* in unity and peace, rendering it to some degree an anticipation and a prefiguration of the undivided *city of God*."

The words are Augustine's, though he might not have agreed with their deployment. In *The City of God*, the Bishop of Hippo frowned on claims that a sphere of human activity such as politics or economics, which "has its good in this world, and rejoices in [the material world] with such joy as such things can afford," could ever prefigure the city of God. At the end of time, he taught, such activities would be "committed to the extreme penalty." Doubtless some Augustinian theologian could mount a critique of Benedict's attempt to fashion an "economic theology," just as in 1935 Erik Peterson—who fled his native Germany and found asylum in the Vatican—attacked the Nazi jurist Carl Schmitt's articulation of a Catholic "political theology." I am certainly not that theologian. I wish only to point out the scope of Benedict's ambition. His ideal is that every act of exchange should approximate the gratuitous gift of divine love. Every coin should approximate a Eucharist.

To some extent, Benedict's predecessors shared this ideal. In 1987, in *Sollicitudo rei socialis,* John Paul II also described the desired order in terms of sacrament: "This supreme model of unity, which is a reflection of the intimate life of God, one God in three Persons, is what we Christians mean by the word 'communion.' This specifically Christian communion, jealously preserved, extended and enriched with the Lord's help, is the soul of the Church's vocation to be a 'sacrament.'" But while John Paul maintained Catholicism's "jealously preserved" prerogatives, he did not make them a prerequisite for responding to his message:

> I wish to appeal with simplicity and humility to everyone, to all men and women without exception. I wish to ask them to be convinced of the seriousness of the present moment and of each one's individual responsibility, and to implement—by the way they live as individuals and as families, by the use of their resources, by their civic activity, by contributing to economic and political decisions and by personal commitment to national and international undertakings—the measures inspired by solidarity and love of preference for the poor. This is what is demanded by the present moment and above all by the very dignity of the human person, the indestructible image of God the Creator, which is identical in each one of us.
>
> In this commitment, the sons and daughters of the Church must serve as examples and guides.... [But] I [also] wish to address especially those who, through the sacrament of Baptism and the profession of the same Creed, share a real, though imperfect, communion with us. I am certain that the concern expressed in this Encyclical as well as the motives inspiring it will be familiar to them, for these motives are inspired by the Gospel of Jesus Christ. We can find here a new invitation to bear witness together to our common convictions.... I likewise address this appeal to the Jewish people, who share with us the inheritance of Abraham, "our father in faith" and the tradition of the Old Testament, as well as to the Muslims who, like us, believe in a just and merciful God. And I extend it to all the followers of the world's great religions.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

John Paul understood that an encyclical addressed to global problems cannot speak in parochial terms. Certainly he was a Defender of the Faith; but like Paul VI, whose *Populorum Progressio* he was commemorating, he left the bulk of that defense for other encyclicals.

Benedict's new encyclical also presents itself as a celebration of *Populorum Progressio*, and it, too, claims to be addressed to peoples of all faiths. But here the complications, and the narrowings, set in. Benedict's second key term, again, is "truth"—and this points to vast differences in strategy, if not in dogma. Unlike those previous encyclicals, Benedict's *Caritas in Veritate* foregrounds the argument that only Catholicism contains the "Love in Truth" that is necessary to address our global problems. Only Catholicism produces the synthesis of faith and reason, of spirit and flesh, necessary to produce an "authentic" economic development that does not lapse into either "mere" technical knowledge (materialism) or fanatical rejection of the world and its wealth. And only Catholicism, Benedict tells us, can achieve the universal fraternity necessary for authentic community: "Reason, by itself, is capable of grasping the equality between men and of giving stability to their civic coexistence, but it cannot establish fraternity. This originates in a transcendent vocation from God the Father, who loved us first, teaching us through the Son what fraternal charity is."

Undoubtedly there will be those who disagree with some of Benedict's specific truths. Myself, I am not convinced that love, charity, or empathy require "universal fraternity." In the words of Proverbs, "better a close neighbor than a distant brother." But disagreement is not the problem: popes have the right, indeed the obligation, to teach believers the truth as they are given to perceive it, no matter how controversial. The problem is that Benedict is claiming to offer general answers to global questions that affect people of every faith (and sometimes of no faith), while at the same time insisting that the only possible answer to those questions is Catholicism. Such a suggestion might be a plausible prescription for global peace and development in a Catholic world, but the world is not Catholic.

Where John Paul II or Paul VI cultivated an ecumenical voice when they wished to speak about global problems, Benedict cultivates a dogmatic one. In his famous Regensburg address in 2007, he invited the Muslim world to a tolerant "dialogue," but set the Catholic synthesis of faith and reason as a prerequisite for that dialogue. Now he offers the peoples of the world some valuable insights into the current problems of our global order, but again he expresses them in an insular manner, as a defense of Catholicism's exclusive claims to truth.

Benedict can be a subtle thinker about the role of religious values in modern life, so if he chooses dogmatism, he doubtless has his ecclesiological reasons. But our current debates about the economy are the poorer for the choice. We are living through a time of sharpened questions about the role of values and moral sentiments in the marketplace. Our economic crisis has rightly refreshed the debate about our economic principles. And we are learning that after decades of triumphant liberal capitalism, we lack—at least in the United States—a political or philosophical discourse of sufficient resonance to temper the claims of self-interest.

Religions offer one of the few reservoirs of moral values still deep enough to nourish popular visions of a more "common good" (as the Obama campaign realized when it adopted the scriptural tag "Am I my brother's keeper?"). But if by "common" we mean "global," as Benedict says he does, then the prescriptions that we produce from within our own communities of conviction must be intelligible and adoptable outside of them. They must make sense to people who do not already share all of those convictions. If they do not, then what we are issuing is simply a call for conversion to our own cult or culture. And such calls are unlikely to contribute to global unity, even when they are made in the name of universal love, because that love contracts readily into a sectarian one, in which "love your neighbor as yourself" (Leviticus 19:18) comes to mean "love your fellow Christian" (Hebrews 13:1).

If this last point sounds extreme, it may help to remember that Benedict's Catholic solution to the problems of globalization is not the only religious one on offer, nor the most widespread. Beginning in the 1950s and 1960s, Islamist thinkers such as Sayyid Qutb first proposed and then achieved a muscular mobilization of the demands of a transcendent God against those of a globalizing market. Qutb understood Islam—much as Benedict understands Catholicism—as the only religion capable of dialectically reconciling humanity's material and spiritual needs. The Christian West—deliberately undermined by Judaism—had succumbed to an atheistic materialism, worshipping only rationality and technical prowess, with which it now threatened to overwhelm the rest of the world. According to Qutb, Islam alone was capable of resisting this materialism and rescuing true humanism (a claim similar to, but incompatible with, Benedict's claims for Catholicism). Islamism is today one of the most widespread movements of resistance to the perceived injustices of globalization, but it has hardly succeeded in bringing the world unity and peace. Why should we expect, unless we are ourselves already believers, that any other exclusive claim to divine economic truth can do any better?

We do not require religion in order to find ways of aligning the many types of exchanges so necessary to human society with some large vision of distributive justice. We can draw on philosophical theories (such as John Rawls's); on theories of empathy and other moral sentiments (such as Adam Smith's), and on legal traditions (such as natural law); on rapidly accumulating research about perceptions of fairness, reciprocity, and symmetry in the psychology of economic behavior; and even on recent studies of capuchin monkeys, in which test subjects refused to perform the behaviors they had been trained for when they saw another monkey receiving greater reward for the same trick. And yet Catholicism, Islam, Judaism, and many other religions have produced an immense body of thought about economic morality, and that thought has great resonance.

In a de-secularizing age, and with our faith in self-interest shaken by economic crisis, we should want to draw on the wisdom in that ocean of thought. But if those teachings are to contribute to global "unity and peace," they will have to be taught in a way that seeks to transcend the boundaries of the traditions that produced them. This does not mean, as Benedict fears, that Christianity (or any other religion) must become "more or less interchangeable with a pool of good sentiments, helpful for social cohesion, but of little relevance," or that "there would no longer be any real place for God in the world." Values are not a zero-sum game. God's place in the world is not lost when one religion tries to translate some of its truths into helpful good sentiments for those of other or no faith, something that Pius XI and John Paul II both understood. Benedict presents his encyclical as a continuation of their teaching, but in this regard he did not follow their example. His "love" is narrowed by his "truth." ◆

ANTHONY RUSSO

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Martha C. Nussbaum

THE PASSION FASHION

A VINDICATION OF LOVE: RECLAIMING ROMANCE FOR THE TWENTY-FIRST CENTURY
By Cristina Nehring
(Harper, 328 pp., $24.99)

Women today are too risk-averse in love, charges Cristina Nehring. We "settle," and seek comfort rather than passion. In flight from pain, we end up too often with mediocre and cramped relationships. Obsessed with control, we lack "the generous fault to put oneself entirely in another's hands and thus be at his mercy." We employ a whole battery of devices to lessen our exposure to experience, to distance ourselves from real vulnerability: we regard our passions with ironic distance; we convert sex into a commodity; we glorify momentary pleasure rather than lasting emotion.

In the process, Nehring continues, women are losing out on one of life's great goods. For love is not just wonderful in itself, it is also a source of energy for the rest of life's activities—particularly, perhaps, for artistic and intellectual creativity. And it is a source of insight, leading us to see ourselves and others with more generous and accurate eyes. (Here Nehring draws persuasively on Plato's *Phaedrus*.) In sum, love makes the entire person come alive—but only if it is pursued with sufficient openness and daring that it brings with it a constant danger of pain and loss.

So far, so good. Nehring certainly raises an important issue—although it is not only with respect to love, and not only yesterday and today, that people have preferred to live in an excess of caution. Most people in most times and places have been averse to risk, avoiding deep commitments of all sorts—to work, to justice, to a cause, to a country—because they can see that through such commitments they would risk failure on a large scale. Most people enjoy contemplating the sufferings of tragic heroes, but they do not wish to be called upon for heroism themselves. Not caring deeply; looking at everything with irony, as a mere spectacle; and pursuing superficial pleasures: these are clever ways of evading or thwarting tragedy—in love, but also in every department of life. The smallness of aspiration against which Nietzsche inveighed in his portrait of "the last man" is not, as he suggested, a recent creation of bourgeois European Christianity. It is a pervasive inclination of ordinary human life.

But it is certainly possible that in America in our own era we are seeing a rising tide of risk aversion. If I compare my students today with my student contemporaries of the 1960s and 1970s, they certainly do seem to be more cautious and more calculating—about career choice, political engagement, and aspiration generally. They make prudent life plans, and they are unembarrassed by all their prudence. It would not surprise me if attitudes to romantic love have become similarly cautious and calculating, and perhaps also similarly ironic and detached. How could they not, if people are determined not to take large risks in any precinct of life?

Nehring provides no systematic evidence for the claim that attitudes to love have changed. She ignores a huge stretch of popular culture when she says that we badly need some books that make passionate romance sexy for women. Can it be that she has never encountered romance novels? Does she not go to the movies? Still, she is on solid ground when she contends that many people miss a lot in life, including a deeper understanding of self and other, because they are determined not to fail and not to suffer—because they hold the conviction that it is not better to have loved and lost. If you are a person globally averse to risk, then you will circumspectly avoid profound personal love, because its riskiness is obvious.

Nehring seeks to "reinvent" romantic love for our time, and to accomplish this by telling great love stories from literature and history, trying to get us to see how appealing they are in their proud openness to risk and in the magnitude of loss to which they make themselves vulnerable. Abelard and Heloise, Antony and Cleopatra, Mary Wollstonecraft and William Godwin, Margaret Fuller and Count Giovanni Ossoli, Jean-Paul Sartre and Simone de Beauvoir, Frida Kahlo and Diego Rivera—they are all fun to read about, and they do remind us of the joyousness and the wisdom that can come from life lived on a grand scale, without crippling self-protectiveness. (Although most of Nehring's key examples are heterosexual, she expresses sympathy with same-sex lovers too, and evidently thinks that the same analysis applies to their choices.) Nehring rarely mentions the fact that some of these examples are fictional and some real, but blurring that line does not cause confusion, because her strategy is to show the lasting appeal of these stories for women today, as models and possibilities.

Unfortunately—since there is a good idea here—Nehring does not have terribly good taste about what is sexy in literary love. She adores the large melodramatic gesture, but does not seem drawn to subtlety, playfulness, or finesse. There is "hardly a sexier moment in the history of opera," she pronounces, than the scene in *Carmen* in which Carmen convinces Don José to release her. Well, all right, the music is first-rate, but the view of love on offer is so adolescent that even Nietzsche—famous for his silly views about women and love—went for it. The simple man brought low by the wiles of a heartless seductress: this is a banal male fantasy, and it has very little to do with anything like love.

One suspects that Nehring would be utterly bored by the passages in opera—which is indeed a vast literature about love—that explore love and sexuality in a more subtle and, I think, more genuinely erotic manner: the playful, tender seduction duet "Il cuore vi dono" in *Così Fan Tutte*, which surely depicts risk in its own way, by showing how one can search for one's own heart and then discover that it is beating over there, in someone else's body; or the ecstatic final duet "Pur ti miro, pur ti godo" in *L'Incoronazione di Poppea*, which shows why one would want to take a risk in the first place—so as to attain a rapturous focus on the person one loves. Notice that in both lyrics the "you," not the "I," is paramount: these lovers are savoring one another, not their own interesting mental states.

For Nehring, only the crashingly obvious and way-over-the-top is sexy. This is a considerable defect in a book that aims to re-invigorate romantic love. Similarly, and astonishingly, she dismisses Shakespeare's comedies as sources for insight into romantic love, calling them "frivolous," "light-hearted," and "without gravity."

Martha C. Nussbaum is professor of law and philosophy at the University of Chicago. Her new book, From Disgust to Humanity: Sexual Orientation and the Constitution, will be published by Oxford University Press in February.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

(A part of the problem is that she appears to think that laughter is incompatible with passion.) And Nehring's aesthetic deficiencies are amply on display in her writing, which is breathless, full of cheap effects, and as narcissistic as a teenager's diary:

> As I write these words, I bear the bodily scars of a loss or two in love. I have been derailed by love, hospitalized by love, flung around five continents, shaken, overjoyed, inspired, and unsettled by love.

There is a lot more writing as bad as this in Nehring's book. Her bad prose has an ethically unpleasant flavor, in its fascination with her own experience, her own pain, and her own ecstasy. This is surely not helpful if what one is pursuing is love, which is, after all, directed at another.

Her style is not Nehring's only problem. Her central thesis is really two distinct arguments, one sensible and wise, the other adolescent and silly. The wise thesis is that one should be willing to incur risk for the sake of a deep and valuable love. This advice may not be for everyone, but for those who have the strength to live that way, such a life does, as she says with Plato, promise great rewards—even when, as often happens, the love turns out to involve reversal or some other type of suffering. (There is always death at the end of even the happiest love.) We can add to the wise thesis a corollary that Nehring at times endorses: given that people tend to be self-insulating and risk-averse, valuable love involves "conquest and self-conquest," a struggle against one's own selfish and self-protective propensities. In this sense, struggle does seem intrinsic to the valuable type of love.

The second thesis, which Nehring regularly confuses with the first, is that the quality of a love can be measured by the amount of danger, distance, riskiness, suffering, and so on that it involves. In the pursuit of this melodramatic idea, Nehring writes chapters with subtitles such as "Love as Inequality," "Love as Transgression," "Love as Absence," "Love as Failure." The idea that love is improved by suffering and loss is an adolescent view (despite the fact that some great Romantic writers have had it—but then Romanticism had its elements of immaturity). This argument generates some of the book's silliest parts, in which Nehring recommends to today's women a life spent in unseemly narcissistic reveling in their own tribulations.

The second thesis is not the same as the first. All of Nehring's favored lovers were willing to endure suffering for love, if life brought suffering their way—but they did not seek it out. They were quite prepared to live happily, and they eagerly did so, until illness and death took their inevitable toll. Sartre and de Beauvoir, Wollstonecraft and Godwin, Antony and Cleopatra: none of these lovers courted suffering as a good in itself. By Nehring's own account, they enjoyed life and one another—and then, because of the way life is, they had to deal with adversity, loss, and death. But the roiled Romantic sensibility of Nehring's second thesis, and the characters who are its exemplars, is quite different: Werther was not prepared to live happily with anyone, and he clearly regards his love as deep in proportion to its painfulness. Nehring clearly loves the Werther model of love, but I would question whether this is a model of love at all, and not a type of acute self-preoccupation—narcissism masquerading as love. Unlike love (as Nehring in her Platonic mood describes love), it yields no insight into any other person, because the gaze is resolutely on the vicissitudes of the self. Nor does it yield any insight into nature, since nature is seen through a fog of the sufferer's own projected emotions. Nehring asks women to take generous risks, rejecting self-concern and self-protectiveness, but in her fascination with the pain of the self she moves awfully close to the invincible self-involvement that she rightly criticizes.

Each of Nehring's chapters generates its own version of the two theses, and of the tension between them. Real love may be able to surmount social inequality—but does it require or thrive on social inequality? Real love may require suffering or loss, and this suffering may move us when we contemplate it—but does the love itself really get better or more "purified" the more the lovers suffer? Nehring certainly does not show that lovers are more open to one another because of the suffering that they endure. Again, deep love may at times lead lovers to transgress restrictive social norms, but surely it does not follow that love is deeper and more real the more transgressive it is. And this confusion about transgression is nothing other than a staple of male mid-life crisis. Politicians seem particularly prone to this confusion, perhaps because that profession selects for a high degree of narcissism.

Nehring addresses her book to women. She thinks that it is women in particular who need to hear her message, because she has an unusual diagnosis of the reasons for today's risk-averse living. Bypassing such plausible causes as pervasive human anxiety, the desire to control the uncontrollable, the felt need to surmount mortality and the limits of the body, she pins the whole thing on—fanfare of operatic trumpets!—feminism. Feminism is to blame for women's rejection of romantic love because, says Nehring, feminism asks women to be always rational and always in control, rejecting the romantic emotions as sources of low status or even of servitude. Moreover, feminism urges us to see love in contractual terms, and that sort of calculation is incompatible with real passion.

Let us admit that some feminists have mistrusted love altogether, and have urged women not to allow themselves to fall under its sway. One can always find such passages from some of the early radical feminists (though Nehring is quite wrong to pin this view on Andrea Dworkin, who wanted to open a space for real passion by getting rid of the idea that the man is always entitled to use force to gain his ends). And let us also admit that some feminists have at least suggested that correct sexual relations should not involve anything like abandon, or play with power relations—a view that Nehring appears to target, albeit unclearly. Some feminists may have been so severe in their critique of inequality that they insisted on too vigilant a control over people's unruly fantasy lives. But the dominant view in feminism, I think, has been that the context of the relationship as a whole is all-important: in a context of mutual respect, intimacy, and trust, there is nothing problematic about experimenting with passivity, abandon, and temporary power and powerlessness.

Let us admit, too, that some feminists have wrongly criticized Mary Wollstonecraft for her passionate erotic life, in which she seems to them to be too susceptible, too lacking in pride. To the extent that some feminists have said this, Nehring is right to point out that the energy of some of the best feminist work comes from a willingness to seek passion without self-protection.

On the whole, though, the idea that women who are romantic and sexually passionate cannot be real thinkers has come more from males than from females, as Nehring herself notes. Men have had an irritating propensity to react to the presence of a sexually and romantically charged woman as if she were a source of trouble and confusion, and to feel that clear thinking can only take place if she is ushered out of the room. But that is their

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

problem, not ours; and Nehring is right to say that women should never have listened to them. Male artists, as Nehring emphasizes, have always been allowed to have love lives, and women should have demanded the same right from the start. So I agree with Nehring that a productive feminism should not internalize the male critique of female sexuality, and that it should claim the right to equal erotic lives. How far this is the problem of feminism, and how far it is just an understandable reaction to a real problem that women were having in the workplace, still needs to be determined.

What certainly cannot be maintained, however, is that the search for equality itself is the death knell of passion. Nehring agrees that women did not get much opportunity to take risks for love until feminism came along: they were treated like property, and they could not really choose a mate for love. They were subject to force, and this was taken to be normal, the way things were, especially in marriage. Real sexual agency, for all but a lucky or privileged few, required feminism, with its insistence on the right to divorce, and its protection against marital rape, and increased attention to problems of sexual coercion in the workplace. Nehring seems to grant this—but then she should grant also that the entry of law into the domain of intimacy is not the end of romance, but its necessary condition. Unless and until women can earn money without depending on men; unless and until they can protect their bodies against assault, even in an intimate relationship; unless and until they can protect themselves from unwanted pregnancy; unless and until they feel free to go to the police when they have been assaulted—unless all these conditions of freedom and autonomy are in place, the pursuit of adult romance may be jeopardized for many women. Fear and silence will reign supreme. Why were the students of my generation so joyful and so willing to accept risk? In part, because feminism had cleared a space for risk of the valuable sort, by beginning to control the bad and non-necessary risks that women used to run every day in a male-dominated world.

But, says Nehring, love thrives on inequality. Here, of course, we have the two-theses problem. The first says, wisely, that real love should be prepared to overcome inequalities of power, class, and station. (That is the plot of more or less every Victorian novel.) The second says, foolishly, that real love requires inequality of power, class, and station. So confused is Nehring at this point that she interprets *Pride and Prejudice* as confirmation of her second thesis rather than her first: it shows, she says, that people always eroticize class difference and would never love people of similar station. What a trivialization of Elizabeth Bennett and Mr. Darcy! Their deep moral and intellectual affinity, and their strong romantic attraction, gradually manage to surmount the obstacles imposed by rigid social norms and the internal dispositions (prejudice and pride) that they engender. It is true that there would be no novel without the distance: after all, there has to be a plot. It seems obviously untrue, however, that there would be no love without the distance. Far from social distance being eroticized, it is, until late in the novel, a source of erotic blindness. At this point Nehring's argument loses all clarity, as, seeking confirmation for her anti-feminist thesis, she begins to treat any qualitative difference at all as "inequality": the very fact of heterosexuality, she now says, shows that sexual desire thrives on inequality.

But does passion even require qualitative difference? Here Nehring appears to endorse a view of sexual attraction that Roger Scruton popularized some time ago in his book *Sexual Desire*. Really valuable sexual passion, Scruton said, requires qualitative differences between the parties, because sexual love, when valuable, involves a kind of risky exploration of strange terrain, and we should think less well of those who stick to the familiar. Scruton could not advance this claim as a descriptive thesis about sexual choices, for nothing is more obvious than that people tend to choose people close to themselves in all sorts of ways—religion, class, education. But he did put it forward as a normative claim, and he used it to argue that heterosexuality is superior to homosexuality, because it involves greater adventure and risk. Something like this is probably what Nehring has in mind, although she has no disdain for same-sex passion.

What should we think of this? Do people who choose qualitatively similar partners really lack courage? The most obvious problem with Scruton's thesis was that it was capriciously and inconstantly applied: to sexual orientation, but not to romances between adults and children, between Protestants and Catholics, between the virtuous and the immoral. A more subtle problem with his argument is that it is not even clear how it could be assessed: for, as the philosopher Nelson Goodman showed in his great essay "Seven Strictures on Similarity," the concept of similarity is so slippery that it has basically no content. Any two things are similar and dissimilar to one another in manifold respects.

But the real problem with Scruton—and Nehring, who speaks, Scruton-like, of the "enigmatic Other"—is that they both mislocate erotic risk. What is risky is not getting in touch with some trait that is dissimilar to some trait of one's own. It is the whole idea of becoming vulnerable to an inner life that one cannot see and can never control. It is not qualitative difference, but the sheer separateness of the other person, the idea of an independent source of vision and will, that makes real love an adventure in generosity—or, if one is like Proust's narrator, a source of mad jealousy and destructive projects of domination and control. And this has nothing at all to do with class difference, or gender difference, or even temperamental difference. It has to do only with the fact of human individuation—that minds and bodies never merge, that intimacy is not a fusion but a conversation.

There is a grain of truth in Nehring's thesis about personal qualities: it is at least plausible to maintain that loving someone who is complicated, opaque, and in some respects concealed can be of particular interest or value. At any rate, we often think less well of people who are willing to love only people who are altogether obvious and lacking in complexity. Rightly or wrongly, we think that such lovers are refusing some challenge, or lacking in curiosity. And yet an erotic attraction to psychological complexity does not require pursuing class difference, career difference, power difference, or some other obvious kind of difference. Indeed, it is difficult to imagine how one could ever pursue a relationship with persons as complicated as some of the artists and writers adduced

RESEARCH ASSOCIATE/PERSONAL ASSISTANT

New York City—Highly intelligent, resourceful individuals with exceptional communication skills sought to undertake research projects and administrative tasks for one of Wall Street's most successful entrepreneurs. We welcome applications from writers, musicians, artists, or others who may be pursuing other professional goals in the balance of their time. $90-110k/yr to start (depending on qualifications). Resume to: gen8R@spsfind.com

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

by Nehring without a context of shared activities, commitments, or aspirations that would generate the kind of friendship and openness that make insight into another person's complexities possible. The way she tells the stories of those complicated artists and writers, they understood this well.

Nehring's complaint against feminism appears to be groundless (apart from offering a fair critique of some of its radical excesses). Pursuing equal respect is perfectly compatible with love. And what's more, Nehring herself seems to think so. I would say that she is a feminist in spite of herself. For among the many relationships that she depicts, she keeps being drawn to the ones that assuredly do involve equal respect and reciprocity: relationships between strong thinkers or artists who respect one another's work and sphere of action, and find a way to enact equality even in a world of inequality. In the case of Margaret Fuller, she makes it clear that she finds the Cambridge suitors who fail to appreciate Fuller's intellect pathetic and contemptible, and she is very glad that Fuller ended up with Ossoli, who did know how to respect her.

All these are feminist paradigms, in the sense that the male of the couple is prepared to defy convention by giving the woman a respect, and a sphere of action, that the surrounding world does not give her. They involve deep connection and a willingness to risk difficulty and adversity, but they combine these qualities with reciprocity. Indeed, it is clear that much of their depth is owed precisely to their reciprocity, because mutual respect generates trust, and trust in turn promotes greater openness and generosity. Nehring herself concludes that "romantic love is better between partners with equal rights.... We can *have* both knowledge and mystery, equality and abandon."

Nehring seems like a very sensible person with some provocative and useful observations, and some wonderful historical and literary material. If her book has an emboldening effect on some of its readers, if it makes them question their inclination to prudence and calculation, then it will almost certainly be for the better. How unfortunate, then, that—led on, perhaps, by the demand for hype and extremism that is a large part of the book-marketing industry these days—she should have rushed into print with an unrefined and not fully disciplined set of ideas, uttered in breathless and melodramatic prose. Her own thoughts deserve better. ◆

Jonathan Chait

WEALTHCARE

GODDESS OF THE MARKET: AYN RAND AND THE AMERICAN RIGHT
By Jennifer Burns
(Oxford University Press, 459 pp., $27.95)

AYN RAND AND THE WORLD SHE MADE
By Anne C. Heller
(Doubleday, 559 pp., $35)

I.

THE CURRENT ERA of Democratic governance has provoked a florid response on the right, ranging from the prosaic (routine denunciations of big spending and debt) to the overheated (fears of socialism) to the lunatic (the belief that Democrats plan to put the elderly to death). Amid this cacophony of rage and dread, there has emerged one anxiety that is an actual idea, and not a mere slogan or factual misapprehension. The idea is that the United States is divided into two classes—the hard-working productive elite, and the indolent masses leeching off their labor by means of confiscatory taxes and transfer programs.

You can find iterations of this worldview and this moral judgment everywhere on the right. Consider a few samples of the rhetoric. In an op-ed piece last spring, Arthur Brooks, the president of the American Enterprise Institute, called for conservatives to wage a "culture war" over capitalism. "Social Democrats are working to create a society where the majority are net recipients of the 'sharing economy,'" he wrote. "Advocates of free enterprise ... have to declare that it is a moral issue to confiscate more income from the minority simply because the government can." Brooks identified the constituency for his beliefs as "the people who were doing the important things right—and who are now watching elected politicians reward those who did the important things wrong." Senator Jim DeMint echoed this analysis when he lamented that "there are two Americas but not the kind John Edwards was talking about. It's not so much the haves and the have-nots. It's those who are paying for government and those who are getting government."

Pat Toomey, the former president of the Club for Growth and a Republican candidate for the Senate in Pennsylvania, has recently expressed an allegorical version of this idea, in the form of an altered version of the tale of the Little Red Hen. In Toomey's rendering, the hen tries to persuade the other animals to help her plant some wheat seeds, and then reap the wheat, and then bake it into bread. The animals refuse each time. But when the bread is done, they demand a share. The government seizes the bread from the hen and distributes it to the "not productive" fellow animals. After that, the hen stops baking bread.

This view of society and social justice appeared also in the bitter commentary on the economic crisis offered up by various Wall Street types, and recorded by Gabriel Sherman in *New York* magazine last April. One hedge-fund analyst thundered that "the government wants me to be a slave!" Another fantasized, "JP Morgan and all these guys should go on strike—see what happens to the country without Wall Street." And the most attention-getting manifestation of this line of thought certainly belonged to the CNBC reporter Rick Santelli, whose rant against government intervention transformed him into a cult hero. In a burst of angry verbiage, Santelli exclaimed: "Why don't you put up a website to have people vote on the Internet as a referendum to see if we really want to subsidize the losers' mortgages, or would we like to at least buy cars and buy houses in foreclosure and give them to people that might have a chance to actually prosper down the road and reward people that could carry the water instead of drink the water!"

Most recently the worldview that I am describing has colored much of the conservative outrage at the prospect of health care reform, which some have called a "redistribution of health" from those wise enough to have secured health insurance to those who have not. "President Obama says he will cover thirty to forty to fifty million people who are not covered now—without it costing any money," fumed Rudolph Giuliani. "They will have to cut other services, cut programs. They will have to be making decisions about people who are elderly." At a health care town hall in Kokomo, Indiana, one protester framed the case against health care reform positively, as an open defense of the virtues of selfishness. "I'm responsible for myself and I'm

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

not responsible for other people," he explained in his turn at the microphone, to applause. "I should get the fruits of my labor and I shouldn't have to divvy it up with other people." (The speaker turned out to be unemployed, but still determined to keep for himself the fruits of his currently non-existent labors.)

In these disparate comments we can see the outlines of a coherent view of society. It expresses its opposition to redistribution not in practical terms—that taking from the rich harms the economy—but in moral absolutes, that taking from the rich is wrong. It likewise glorifies selfishness as a virtue. It denies any basis, other than raw force, for using government to reduce economic inequality. It holds people completely responsible for their own success or failure, and thus concludes that when government helps the disadvantaged, it consequently punishes virtue and rewards sloth. And it indulges the hopeful prospect that the rich will revolt against their ill treatment by going on strike, simultaneously punishing the inferiors who have exploited them while teaching them the folly of their ways.

There is another way to describe this conservative idea. It is the ideology of Ayn Rand. Some, though not all, of the conservatives protesting against redistribution and conferring the highest moral prestige upon material success explicitly identify themselves as acolytes of Rand. (As Santelli later explained, "I know this may not sound very humanitarian, but at the end of the day I'm an Ayn Rand-er.") Rand is everywhere in this right-wing mood. Her novels are enjoying a huge boost in sales. Popular conservative talk show hosts such as Rush Limbaugh and Glenn Beck have touted her vision as a prophetic analysis of the present crisis. "Many of us who know Rand's work," wrote Stephen Moore in the *Wall Street Journal* last January, "have noticed that with each passing week, and with each successive bailout plan and economic-stimulus scheme out of Washington, our current politicians are committing the very acts of economic lunacy that *Atlas Shrugged* parodied in 1957."

Christopher Hayes of *The Nation* recently recalled one of his first days in high school, when he met a tall, geeky kid named Phil Kerpen, who asked him, "Have you ever read Ayn Rand?" Kerpen is now the director of policy for the conservative lobby Americans for Prosperity and an occasional right-wing talking head on cable television. He represents a now-familiar type. The young, especially young men, thrill to Rand's black-and-white ethics and her veneration of the alienated outsider, shunned by a world that does not understand his gifts. (It is one of the ironies, and the attractions, of Rand's capitalists that they are depicted as heroes of alienation.) Her novels tend to strike their readers with the power of revelation, and they are read less like fiction and more like self-help literature, like spiritual guidance. Again and again, readers would write Rand to tell her that their encounter with her work felt like having their eyes open for the first time in their lives. "For over half a century," writes Jennifer Burns in her new biography of this strange and rather sinister

Ayn Rand, 1936

figure, "Rand has been the ultimate gateway drug to life on the right."

The likes of Gale Norton, George Gilder, Charles Murray, and many others have cited Rand as an influence. Rand acolytes such as Alan Greenspan and Martin Anderson have held important positions in Republican politics. "What she did—through long discussions and lots of arguments into the night—was to make me think why capitalism is not only efficient and practical, but also moral," attested Greenspan. In 1987, *The New York Times* called Rand the "novelist laureate" of the Reagan administration. Reagan's nominee for commerce secretary, C. William Verity Jr., kept a passage from *Atlas Shrugged* on his desk, including the line "How well you do your work … [is] the only measure of human value."

Today numerous CEOs swear by Rand. One of them is John Allison, the outspoken head of BB&T, who has made large grants to several universities contingent upon their making *Atlas Shrugged* mandatory reading for their students. In 1991, the Library of Congress and the Book of the Month Club polled readers on what book had influenced them the most. *Atlas Shrugged* finished second, behind only the Bible. There is now talk of filming the book again, possibly as a miniseries, possibly with Charlize Theron. Rand's books *still* sell more than half a million copies a year. Her ideas have swirled below the surface of conservative thought for half a century, but now the particulars of our moment—the economic predicament, the Democratic control of government—have drawn them suddenly to the foreground.

II.

Rand's early life mirrored the experience of her most devoted readers. A bright but socially awkward woman, she harbored the suspicion early on that her intellectual gifts caused classmates to shun her. She was born Alissa Rosenbaum in 1905 in St. Petersburg. Her Russian-Jewish family faced severe state discrimination, first for being Jewish under the czars, and then for being wealthy merchants under the Bolsheviks, who stole her family's home and business for the alleged benefit of the people.

Anne C. Heller, in her skillful life of Rand, traces the roots of Rand's philosophy to an even earlier age. (Heller paints a more detailed and engaging portrait of Rand's interior life, while Burns more thoroughly analyzes her ideas.) Around the age of five, Alissa Rosenbaum's mother instructed her to put away some of her toys for a year. She offered up her favorite possessions, thinking of the joy that she would feel when she got them back after a long wait. When the year had passed, she asked her mother for the toys, only to be told she had given them away to an orphanage. Heller remarks that "this may have been Rand's first encounter with injustice masquerading as what she would later acidly call 'altruism.'" (The anti-government activist Grover Norquist has told a similar story from childhood, in which his father would steal bites of his ice cream cone, labelling each bite "sales tax" or "income tax." The psychological link between a certain form of childhood deprivation and extreme libertarianism awaits serious study.)

CORBIS

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Rosenbaum dreamed of fame as a novelist and a scriptwriter, and fled to the United States in 1926, at the age of twenty-one. There she adopted her new name, for reasons that remain unclear. Rand found relatives to support her temporarily in Chicago, before making her way to Hollywood. Her timing was perfect: the industry was booming, and she happened to have a chance encounter with the director Cecil B. DeMille—who, amazingly, gave a script-reading job to the young immigrant who had not yet quite mastered the English language. Rand used her perch as a launching pad for a career as a writer for the stage and the screen.

Rand's political philosophy remained amorphous in her early years. Aside from a revulsion at communism, her primary influence was Nietzsche, whose exaltation of the superior individual spoke to her personally. She wrote of one of the protagonists of her stories that "he does not understand, because he has no organ for understanding, the necessity, meaning, or importance of other people"; and she meant this as praise. Her political worldview began to crystallize during the New Deal, which she immediately interpreted as a straight imitation of Bolshevism. Rand threw herself into advocacy for Wendell Wilkie, the Republican presidential nominee in 1940, and after Wilkie's defeat she bitterly predicted "a Totalitarian America, a world of slavery, of starvation, of concentration camps and of firing squads." Her campaign work brought her into closer contact with conservative intellectuals and pro-business organizations, and helped to refine her generalized anti-communist and crudely Nietzschean worldview into a moral defense of the individual will and unrestrained capitalism.

Rand expressed her philosophy primarily through two massive novels: *The Fountainhead*, which appeared in 1943, and *Atlas Shrugged*, which appeared in 1957. Both tomes, each a runaway best-seller, portrayed the struggle of a brilliant and ferociously individualistic man punished for his virtues by the weak-minded masses. It was *Atlas Shrugged* that Rand deemed the apogee of her life's work and the definitive statement of her philosophy. She believed that the principle of trade governed all human relationships—that in a free market one earned money only by creating value for others. Hence, one's value to society could be measured by his income. History largely consisted of "looters and moochers" stealing from society's productive elements.

In essence, Rand advocated an inverted Marxism. In the Marxist analysis, workers produce all value, and capitalists merely leech off their labor. Rand posited the opposite. In *Atlas Shrugged*, her hero, John Galt, leads a capitalist strike, in which the brilliant business leaders who drive all progress decide that they will no longer tolerate the parasitic workers exploiting their talent, and so they withdraw from society to create their own capitalistic paradise free of the ungrateful, incompetent masses. Galt articulates Rand's philosophy:

> The man at the top of the intellectual pyramid contributes the most to all those below him, but gets nothing except his material payment, receiving no intellectual bonus from others to add to the value of his time. The man at the bottom who, left to himself, would starve in his hopeless ineptitude, contributes nothing to those above him, but receives the bonus of all of their brains. Such is the nature of the "competition" between the strong and the weak of the intellect. Such is the pattern of "exploitation" for which you have damned the strong.

The bifurcated class analysis did not end the similarities between Rand's worldview and Marxism. Rand's Russian youth imprinted upon her a belief in the polemical influence of fiction. She once wrote to a friend that "it's time we realize—as the Reds do—that spreading our ideas in the form of fiction is a great weapon, because it arouses the public to an *emotional*, as well as intellectual response to our cause." She worked both to propagate her own views and to eliminate opposing views. In 1947 she testified before the House Un-American Activities Committee, arguing that the film *Song of Russia*, a paean to the Soviet Union made in 1944, represented communist propaganda rather than propaganda for World War II, which is what it really supported. (Rand, like most rightists of her day, opposed American entry into the war.)

In 1950, Rand wrote the influential *Screen Guide for Americans*, the Motion Picture Alliance's industry guidebook for avoiding subtle communist influence in its films. The directives, which neatly summarize Rand's worldview, included such categories as "Don't Smear The Free Enterprise System," "Don't Smear Industrialists" ("it is they who created the opportunities for achieving the unprecedented material wealth of the industrial age"), "Don't Smear Wealth," and "Don't Deify 'The Common Man'" ("if anyone is classified as 'common'—he can be called 'common' only in regard to his personal qualities. It then means that he has no outstanding abilities, no outstanding virtues, no outstanding intelligence. Is *that* an object of glorification?"). Like her old idol Nietzsche, she denounced a transvaluation of values according to which the strong had been made weak and the weak were praised as the strong.

Rand's hotly pro-capitalist novels oddly mirrored the Socialist Realist style, with two-dimensional characters serving as ideological props. Burns notes some of the horrifying implications of *Atlas Shrugged*. "In one scene," she reports, "[Rand] describes in careful detail the characteristics of passengers doomed to perish in a violent railroad clash, making it clear their deaths are warranted by their ideological errors." The subculture that formed around her—a cult of the personality if ever there was one—likewise came to resemble a Soviet state in miniature. Beginning with the publication of *The Fountainhead*, Rand began to attract worshipful followers. She cultivated these (mostly) young people interested in her work, and as her fame grew she spent less time engaged in any way with the outside world, and increasingly surrounded herself with her acolytes, who communicated in concepts and terms that the outside world could not comprehend.

Rand called her doctrine "Objectivism," and it eventually expanded well beyond politics and economics to psychology, culture, science (she considered the entire field of physics "corrupt"), and sundry other fields. Objectivism was premised on the absolute centrality of logic to all human endeavors. Emotion and taste had no place. When Rand condemned a piece of literature, art, or music (she favored Romantic Russian melodies from her youth and detested Bach, Mozart, Beethoven, and Brahms), her followers adopted the judgment. Since Rand disliked facial hair, her admirers went clean-shaven. When she bought a new dining room table, several of them rushed to find the same model for themselves.

Rand's most important acolyte was Nathan Blumenthal, who first met her as a student infatuated with *The Fountainhead*. Blumenthal was born in Canada in 1930. In 1949 he wrote to Rand, and began to visit her extensively, and fell under her spell. He eventually changed his name to Nathaniel Branden, signifying in the ancient manner of all converts that he had repudiated his old self and was reborn in the image of Rand, from whom he

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

adapted his new surname. She designated Branden as her intellectual heir.

She allowed him to run the Nathaniel Branden Institute, a small society dedicated to promoting Objectivism through lectures, therapy sessions, and social activities. The courses, he later wrote, began with the premises that "Ayn Rand is the greatest human being who has ever lived" and "*Atlas Shrugged* is the greatest human achievement in the history of the world." Rand also presided over a more select circle of followers in meetings every Saturday night, invitations to which were highly coveted among the Objectivist faithful. These meetings themselves were frequently ruthless cult-like exercises, with Rand singling out members one at a time for various personality failings, subjecting them to therapy by herself or Branden, or expelling them from the charmed circle altogether.

So strong was the organization's hold on its members that even those completely excommunicated often maintained their faith. In 1967, for example, the journalist Edith Efron was, in Heller's account, "tried in absentia and purged, for gossiping, or lying, or refusing to lie, or flirting; surviving witnesses couldn't agree on exactly what she did." Upon her expulsion, Efron wrote to Rand that "I fully and profoundly agree with the moral judgment you have made of me, and with the action you have taken to end social relations." One of the Institute's therapists counseled Efron's eighteen-year-old son, also an Objectivist, to cut all ties with his mother, and made him feel unwelcome in the group when he refused to do so. (Efron's brother, another Objectivist, did temporarily disown her.)

Sex and romance loomed unusually large in Rand's worldview. Objectivism taught that intellectual parity is the sole legitimate basis for romantic or sexual attraction. Coincidentally enough, this doctrine cleared the way for Rand—a woman possessed of looks that could be charitably described as unusual, along with abysmal personal hygiene and grooming habits—to seduce young men in her orbit. Rand not only persuaded Branden, who was twenty-five years her junior, to undertake a long-term sexual relationship with her, she also persuaded both her husband and Branden's wife to consent to this arrangement. (They had no rational basis on which to object, she argued.) But she prudently instructed them to keep the affair secret from the other members of the Objectivist inner circle.

At some point, inevitably, the arrangement began to go very badly. Branden's wife began to break down—Rand diagnosed her with "emotionalism," never imagining that her sexual adventures might have contributed to the young woman's distraught state. Branden himself found the affair ever more burdensome and grew emotionally and sexually withdrawn from Rand. At one point Branden suggested to Rand that a second affair with another woman closer to his age might revive his lust. Alas, Rand—whose intellectual adjudications once again eerily tracked her self-interest—determined that doing so would "destroy his mind." He would have to remain with her. Eventually Branden confessed to Rand that he could no longer muster any sexual attraction for her, and later that he actually had undertaken an affair with another woman despite Rand's denying him permission. After raging at Branden, Rand excommunicated him fully. The two agreed not to divulge their affair. Branden told his followers only that he had "betrayed the principles of Objectivism" in an "unforgiveable" manner and renounced his role within the organization.

Rand's inner circle turned quickly and viciously on their former superior. Alan Greenspan, a cherished Rand confidant, signed a letter eschewing any future contact with Branden or his wife. Objectivist students were forced to sign loyalty oaths, which included the promise never to contact Branden, or to buy his forthcoming book or any future books that he might write. Rand's loyalists expelled those who refused these orders, and also expelled anyone who complained about the tactics used against dissidents. Some of the expelled students, desperate to retain their lifeline to their guru, used pseudonyms to re-enroll in the courses or resubscribe to her newsletter. But many just drifted away, and over time the Rand cult dwindled to a hardened few.

III.

Ultimately the Objectivist movement failed for the same reason that communism failed: it tried to make its people live by the dictates of a totalizing ideology that failed to honor the realities of human existence. Rand's movement devolved into a corrupt and cruel parody of itself. She herself never won sustained personal influence within mainstream conservatism or the Republican Party. Her ideological purity and her unstable personality prevented her from forming lasting coalitions with anybody who disagreed with any element of her catechism.

Moreover, her fierce attacks on religion—she derided Christianity, again in a Nietzschean manner, as a religion celebrating victimhood—made her politically radioactive on the right. The Goldwater campaign in 1964 echoed distinctly Randian themes—"profits," the candidate proclaimed, "are the surest sign of responsible behavior"—but he ignored Rand's overtures to serve as his intellectual guru. He was troubled by her atheism. In an essay in *National Review* ten years after the publication of *Atlas Shrugged*, M. Stanton Evans summarized the conservative view on Rand. She "has an excellent grasp of the way capitalism is supposed to work, the efficiencies of free enterprise, the central role of private property and the profit motive, the social and political costs of welfare schemes which seek to compel a false benevolence," he wrote, but unfortunately she rejects "the Christian culture which has given birth to all our freedoms."

The idiosyncracies of Objectivism never extended beyond the Rand cult, though it was a large cult with influential members—and yet her central contribution to right-wing thought has retained enormous influence. That contribution was to express the opposition to economic redistribution in moral terms, as a moral depravity. A long and deep strand of classical liberal thought, stretching back to Locke, placed the individual in sole possession of his own economic destiny. The political scientist C. B. MacPherson called this idea "possessive individualism," or "making the individual the sole proprietor of his own person and capacities, owing nothing to society for them." The theory of possessive individualism came under attack in the Marxist tradition, but until the era of the New Deal it was generally accepted as a more or less accurate depiction of the actual social and economic order. But beginning in the mid-1930s, and continuing into the postwar years, American society saw widespread transfers of wealth from the rich to the poor and the middle class. In this context, the theory of possessive individualism could easily evolve into a complaint against the exploitation of the rich. Rand pioneered this leap of logic—the ideological pity of the rich for the oppression that they suffer as a class.

There was more to Rand's appeal. In the wake of a depression that undermined the prestige of business, and then a postwar economy that was characterized by the impersonal corporation, her revival of the capitalist as a romantic hero, even a superhuman figure, naturally flattered the business elite. Here was a woman saying what so many of them understood instinctively. "For twenty-five years," gushed a steel executive to Rand, "I have been yelling my head off about the little-realized fact that

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

eggheads, socialists, communists, professors, and so-called liberals do not understand how goods are produced. Even the men who work at the machines do not understand it." Rand, finally, restored the boss to his rightful mythic place.

On top of all these philosophical compliments to success and business, Rand tapped into a latent elitism that had fallen into political disrepute but never disappeared from the economic right. Ludwig von Mises once enthused to Rand, "You have the courage to tell the masses what no politician told them: you are inferior and all the improvements in your condition which you simply take for granted you owe to the effort of men who are better than you." Rand articulated the terror that conservatives felt at the rapid leveling of incomes in that era—their sense of being singled out by a raging mob. She depicted the world in apocalyptic terms. Even slow encroachments of the welfare state, such as the minimum wage or public housing, struck her as totalitarian. She lashed out at John Kennedy in a polemical nonfiction tome entitled *The Fascist New Frontier*, anticipating by several decades Jonah Goldberg's equally wild *Liberal Fascism*.

Rand's most enduring accomplishment was to infuse laissez-faire economics with the sort of moralistic passion that had once been found only on the left. Prior to Rand's time, two theories undergirded economic conservatism. The first was Social Darwinism, the notion that the advancement of the human race, like other natural species, relied on the propagation of successful traits from one generation to the next, and that the free market served as the equivalent of natural selection, in which government interference would retard progress. The second was neoclassical economics, which, in its most simplistic form, described the marketplace as a perfectly self-correcting instrument. These two theories had in common a practical quality. They described a laissez-faire system that worked to the benefit of all, and warned that intervention would bring harmful consequences. But Rand, by contrast, argued for laissez-faire capitalism as an ethical system. She did believe that the rich pulled forward society for the benefit of one and all, but beyond that, she portrayed the act of taxing the rich to aid the poor as a moral offense.

Countless conservatives and libertarians have adopted this premise as an ideological foundation for the promotion of their own interests. They may believe the consequentialist arguments against redistribution—that Bill Clinton's move to render the tax code slightly more progressive would induce economic calamity, or that George W. Bush's making the tax code somewhat less progressive would usher in a boom; but the utter failure of those predictions to come to pass provoked no rethinking whatever on the economic right. For it harbored a deeper belief in the immorality of redistribution, a righteous sense that the federal tax code and budget represent a form of organized looting aimed at society's most virtuous—and this sense, which remains unshakeable, was owed in good measure to Ayn Rand.

The economic right may believe religiously in their moral view of wealth, but we do not have to respect it as we might respect religious faith. For it does not transcend—perhaps no religion should transcend—empirical scrutiny. On the contrary, this conservative view, the Randian inversion of the Marxist worldview, rests upon a series of propositions that can be falsified by data.

Let us begin with the premise that wealth represents a sign of personal virtue—thrift, hard work, and the rest—and poverty the lack thereof. Many Republicans consider the link between income and the work ethic so self-evident that they use the terms "rich" and "hard-working" interchangeably, and likewise "poor" and "lazy." The conservative pundit Dick Morris accuses Obama of "rewarding failure and penalizing hard work" through his tax plan. His comrade Bill O'Reilly complains that progressive taxation benefits "folks who dropped out of school, who are too lazy to hold a job, who smoke reefers 24/7."

A related complaint against redistribution holds that the rich earn their higher pay because of their nonstop devotion to office work—a grueling marathon of meetings and emails that makes the working life of the typical nine-to-five middle-class drone a vacation by comparison. "People just don't get it. I'm attached to my BlackBerry," complained one Wall Streeter to Sherman. "I get calls at two in the morning, when the market moves. That costs money."

Now, it is certainly true that working hard can increase one's chances of growing rich. It does not necessarily follow, however, that the rich work harder than the poor. Indeed, there are many ways in which the poor work harder than the rich. As the economist Daniel Hamermesh discovered, low-income workers are more likely to work the night shift and more prone to suffering workplace injuries than high-income workers. White-collar workers put in those longer hours because their jobs are not physically exhausting. Few titans of finance would care to trade their fifteen-hour day sitting in a mesh chair working out complex problems behind a computer for an eight-hour day on their feet behind a sales counter.

For conservatives, the causal connection between virtue and success is not merely ideological, it is also deeply personal. It forms the basis of their admiration of themselves. If you ask a rich person whether he ascribes his success to good fortune or his own merit, the answer will probably tell you whether that person inhabits the economic left or the economic right. Rand held up her own meteoric rise from penniless immigrant to wealthy author as a case study of the individualist ethos. "No one helped me," she wrote, "nor did I think at any time that it was anyone's duty to help me."

But this was false. Rand spent her first months in this country subsisting on loans from relatives in Chicago, which she promised to repay lavishly when she struck it rich. (She reneged, never speaking to her Chicago family again.) She also enjoyed the great fortune of breaking into Hollywood at the moment it was exploding in size, and of bumping into DeMille. Many writers equal to her in their talents never got the chance to

Rosetta

Alphabet of night.

The grammar of grief
gets written each day

& lost—learned again
by stone, by small

sliver, hieroglyph.

Morning
stays dark too long.

The light takes
its own sweet

time to arrive.
You gone

into the afterlife
of hollow hands,

faded photographs.

Night's black letters
that require a song

to remember.

KEVIN YOUNG

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

develop their abilities. That was not because they were bad or delinquent people. They were merely the victims of the commonplace phenomenon that Bernard Williams described as "moral luck."

Not surprisingly, the argument that getting rich often entails a great deal of luck tends to drive conservatives to apoplexy. This spring the Cornell economist Robert Frank, writing in *The New York Times*, made the seemingly banal point that luck, in addition to talent and hard work, usually plays a role in an individual's success. Frank's blasphemy earned him an invitation on Fox News, where he would play the role of the loony liberal spitting in the face of middle-class values. The interview offers a remarkable testament to the belligerence with which conservatives cling to the mythology of heroic capitalist individualism. As the Fox host, Stuart Varney, restated Frank's outrageous claims, a voice in the studio can actually be heard laughing off-camera. Varney treated Frank's argument with total incredulity, offering up ripostes such as "That's outrageous! That is *outrageous*!" and "That's nonsense! That is *nonsense*!" Turning the topic to his own inspiring rags-to-riches tale, Varney asked: "Do you know what risk is involved in trying to work for a major American network with a British accent?"

There seems to be something almost inherent in the right-wing psychology that drives its rich adherents to dismiss the role of luck—all the circumstances that must break right for even the most inspired entrepreneur—in their own success. They would rather be vain than grateful. So seductive do they find this mythology that they omit major episodes of their own life, or furnish themselves with preposterous explanations (such as the supposed handicap of making it in American television with a British accent—are there any Brits in this country who have *not* been invited to appear on television?) to tailor reality to fit the requirements of the fantasy.

The association of wealth with virtue necessarily requires the free marketer to play down the role of class. Arthur Brooks, in his book *Gross National Happiness*, concedes that "the gap between the richest and poorest members of society is far wider than in many other developed countries. But there is also far more opportunity … there is in fact an amazing amount of economic mobility in America." In reality, as a study earlier this year by the Brookings Institution and Pew Charitable Trusts reported, the United States ranks near the bottom of advanced countries in its economic mobility. The study found that family background exerts a stronger influence on a person's income than even his education level. And its most striking finding revealed that you are more likely to make your way into the highest-earning one-fifth of the population if you were born into the top fifth and did not attain a college degree than if you were born into the bottom fifth and did. In other words, if you regard a college degree as a rough proxy for intelligence or hard work, then you are economically better off to be born rich, dumb, and lazy than poor, smart, and industrious.

In addition to describing the rich as "hard-working," conservatives also have the regular habit of describing them as "productive." Gregory Mankiw describes Obama's plan to make the tax code more progressive as allowing a person to "lay claim to the wealth of his more productive neighbor." In the same vein, George Will laments that progressive taxes "reduce the role of merit in the allocation of social rewards—merit as markets measure it, in terms of value added to the economy." The assumption here is that one's income level reflects one's productivity or contribution to the economy.

Is income really a measure of productivity? Of course not. Consider your own profession. Do your colleagues who demonstrate the greatest skill unfailingly earn the most money, and those with the most meager skill the least money? I certainly cannot say that of my profession. Nor do I know anybody who would say that of his own line of work. Most of us perceive a world with its share of overpaid incompetents and underpaid talents. Which is to say, we rightly reject the notion of the market as the perfect gauge of social value.

Now assume that this principle were to apply not only within a profession—that a dentist earning $200,000 a year must be contributing exactly twice as much to society as a dentist earning $100,000 a year—but also between professions. Then you are left with the assertion that Donald Trump contributes more to society than a thousand teachers, nurses, or police officers. It is Wall Street, of course, that offers the ultimate rebuttal of the assumption that the market determines social value. An enormous proportion of upper-income growth over the last twenty-five years accrued to an industry that created massive negative social value—enriching itself through the creation of a massive bubble, the deflation of which has brought about worldwide suffering.

If one's income reflects one's contribution to society, then why has the distribution of income changed so radically over the last three decades? While we ponder that question, consider a defense of inequality from the perspective of three decades ago. In 1972, Irving Kristol wrote that

> Human talents and abilities, as measured, do tend to distribute themselves along a bell-shaped curve, with most people clustered around the middle, and with much smaller percentages at the lower and higher ends.… This explains one of the most extraordinary (and little-noticed) features of 20th-century societies: how relatively invulnerable the distribution of income is to the efforts of politicians and ideologues to manipulate it. In all the Western nations—the United States, Sweden, the United Kingdom, France, Germany—despite the varieties of social and economic policies of their governments, the distribution of income is strikingly similar.

So Kristol thought the bell-shaped distribution of income in the United States, and the similarly shaped distributions among our economic peers, proved that income inequality merely followed the natural inequality of human talent. As it happens, Kristol wrote that passage shortly before a boom in inequality, one that drove the income share of the highest-earning 1 percent of the population from around 8 percent (when he was writing) to 24 percent today, and which stretched the bell curve of the income distribution into a distended sloping curve with a lengthy right tail. At the same time, America has also grown vastly more unequal in comparison with the European countries cited by Kristol.

This suggests one of two possibilities. The first is that the inherent human talent of America's economic elite has massively increased over the last generation, relative to that of the American middle class and that of the European economic elite. The second is that bargaining power, political power, and other circumstances can effect the distribution of income—which is to say, again, that one's income level is not a good indicator of a person's ability, let alone of a person's social value.

The final feature of Randian thought that has come to dominate the right is its apocalyptic thinking about redistribution. Rand taught hysteria. The expressions of terror at the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"confiscation" and "looting" of wealth, and the loose talk of the rich going on strike, stands in sharp contrast to the decidedly non-Bolshevik measures that they claim to describe. The reality of the contemporary United States is that, even as income inequality has exploded, the average tax rate paid by the top 1 percent has fallen by about one-third over the last twenty-five years. Again: it has *fallen*. The rich have gotten unimaginably richer, and at the same time their tax burden has dropped significantly. And yet conservatives routinely describe this state of affairs as intolerably oppressive to the rich. Since the share of the national income accruing to the rich has grown faster than their average tax rate has shrunk, they have paid an ever-rising share of the federal tax burden. This is the fact that so vexes the right.

Most of the right-wing commentary purporting to prove that the rich bear the overwhelming burden of government relies upon the simple trick of citing only the income tax, which is progressive, while ignoring more regressive levies. A brief overview of the facts lends some perspective to the fears of a new Red Terror. Our government divides its functions between the federal, state, and local levels. State and local governments tend to raise revenue in ways that tax the poor at higher rates than the rich. (It is difficult for a state or a locality to maintain higher rates on the rich, who can easily move to another town or state that offers lower rates.) The federal government raises some of its revenue from progressive sources, such as the income tax, but also healthy chunks from regressive levies, such as the payroll tax.

The sum total of these taxes levies a slightly higher rate on the rich. The bottom 99 percent of taxpayers pay 29.4 percent of their income in local, state, and federal taxes. The top 1 percent pay an average total tax rate of 30.9 percent—slightly higher, but hardly the sort of punishment that ought to prompt thoughts of withdrawing from society to create a secret realm of capitalistic *übermenschen*. These numbers tend to bounce back and forth, depending upon which party controls the government at any given time. If Obama succeeds in enacting his tax policies, the tax burden on the rich will bump up slightly, just as it bumped down under George W. Bush.

What is so striking, and serves as the clearest mark of Rand's lasting influence, is the language of moral absolutism applied by the right to these questions. Conservatives define the see-sawing of the federal tax-and-transfer system between slightly redistributive and very slightly redistributive as a culture war over capitalism, or a final battle to save the free enterprise system from the hoard of free-riders. And Obama certainly is expanding the role of the federal government, though probably less than George W. Bush did. (The Democratic health care bills would add considerably less net expenditure to the federal budget than Bush's prescription drug benefit.) The hysteria lies in the realization that Obama would make the government more redistributive—that he would steal from the virtuous (them) and give to the undeserving.

Like many other followers of Rand, John Allison of BB&T has taken to claiming vindication in the convulsive events of the past year. "Rand predicted what would happen fifty years ago," he told *The New York Times*. "It's a nightmare for anyone who supports individual rights." If Rand was truly right, of course, then Allison will flee his home and join his fellow supermen in some distant capitalist nirvana. So perhaps the economic crisis may bring some good after all. ◆

Ruth Franklin
THINGS COME TOGETHER

THE THING AROUND YOUR NECK
By Chimamanda Ngozi Adichie
(Knopf, 218 pp., $24.95)

In "Jumping Monkey Hill," the most wicked story in Chimamanda Ngozi Adichie's new collection, a group of young writers selected from all over Africa have gathered for a workshop at a fancy resort outside Cape Town—"the kind of place," thinks Ujunwa, the representative Nigerian, "where … affluent foreign tourists would dart around taking pictures of lizards and then return home still mostly unaware that there were more black people than red-capped lizards in South Africa." The workshop is run by a white couple of a familiar type: liberal expats who proclaim their attachment to their new home a bit too loudly. ("White people who liked Africa too much and those who liked Africa too little were the same—condescending," Adichie writes in another story.) The wife compliments Ujunwa's bone structure and asks if she is descended from royalty: "The first thing that came to Ujunwa's mind was to ask if Isabel ever needed royal blood to explain the good looks of friends back in London." The smarmy husband makes lewd remarks to the women and speaks pompously of his own authority on Africa.

When it comes time for the writers to present their work, the director instructs them that the only appropriate African literature is political. He singles out a story by one of the writers, about killings in the Congo, as "urgent and relevant." (Ujunwa thinks it "read[s] like a piece from *The Economist* with cartoon characters painted in.") But he has no use for the majority of their work, which focuses on personal subjects—love, family life—which he deems "implausible" and "passé." It is beside the point, he declaims, to write a story about coming of age in Zimbabwe when one could be writing about "the horrible Mugabe." And stories about homosexuality are not "reflective of Africa, really." When Ujunwa retorts, "Which Africa?," he looks at her "in the way one would look at a child who refused to keep still in church and said that he wasn't speaking as an Oxford-trained Africanist, but as one who was keen on the real Africa and not the imposing of Western ideas on African venues."

The story is satirical—though not so much so as to remove the suspicion that it might well be, in Ujunwa's words, "a real story of real people." But the director's point has often been made in more respectable ways, including by Chinua Achebe, the patriarch of the African novel, who has argued strenuously for a literature of political engagement. "An African creative writer who tries to avoid the big social and political issues of contemporary Africa will end up being completely irrelevant," Achebe once wrote. Adichie, a Nigerian novelist young enough to be Achebe's granddaughter, has followed in his path in many ways, including her choice of English as the language of her fiction and her interest in African subjects. But while her work is never without political undertones—can any novel about Africa ever be entirely apolitical?—her primary purpose is literary, not doctrinal. Her work does not buckle under its political burden, but supports it with a great humanity.

Even if Adichie had not begun her first novel with the words "Things started to fall apart," comparisons with Achebe

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

would have been inevitable. She grew up in the university town of Nsukka, in the same house Achebe lived in when he was a professor there. And like Achebe, her family is Igbo, a minority ethnic group whose members were the targets of racially motivated violence in the late 1960s after a military coup. The violence led to the brutal war over Biafra, the Igbo-dominated region of eastern Nigeria that fatally declared independence. Adichie has credited Achebe for providing her with a model as a writer. "It was Achebe's fiction that made me realize my own story could be in a book," she once said in an interview. "When I started to write, I was writing Enid Blyton stories, even though I had never been to England. I didn't think it was possible for people like me to be in books."

Things Fall Apart, Achebe's masterpiece, has been justly celebrated for its straightforward portrayal of rural Igbo life, and of the villagers' struggle to hold on to their traditions after the encounter with colonialism. If Achebe's insistence that African novelists have a responsibility to write about African subjects may seem tendentious in today's globalized literary culture, it is worth remembering that when he was in school, in the 1930s and 1940s, the best-known novels about Africa were by colonialist writers such as John Buchan (who asserted that "the difference between white and black [is] the gift of responsibility") and Joyce Cary (notorious for describing Nigerians as "jealous savages" and "unhuman"). When Achebe submitted *Things Fall Apart* to his publisher a little over fifty years ago, his editor wondered whether anyone would buy a novel by an African. As late as the 1970s, Achebe's wife would report to him that a student of hers refused to refer in his writing to the harmattan—the dusty wind that characterizes the West African dry season—because it was "bush." "Things like this show one that the writer has the responsibility to teach his audience that there is nothing shameful about the harmattan, that it is not only daffodils that can make a fit subject for poetry but the palm tree and so on," Achebe observed in his essay "The Novelist as Teacher."

Adichie has obviously taken this lesson seriously: her fiction has focused exclusively on matters related to Africa. *Purple Hibiscus*, her first novel, took up one of Achebe's primary themes: the conflict between tribal religion and Christianity. Kambili, fifteen years old, and her older brother Jaja are kept strictly in line by their father, an excessively zealous convert who orders their free time according to a written schedule and shuns his own father for continuing to practice "pagan" rituals. He beats his wife and subjects his children to excruciating punishments for what he perceives as their crimes against God, such as pouring boiling water on Kambili's feet after she "walks into sin" by not informing him about a visit with her grandfather. By contrast, the world of women—particularly the household of a widowed aunt, where Kambili and her brother are sent on an extended visit—is warm and consoling, the language sprinkled with Igbo endearments. (The father, whose sister describes him as "too much of a colonial product," speaks only English with his children.)

Purple Hibiscus was published in 2003, when Adichie was just twenty-six, and in certain ways it feels like a first novel: the book's symbolism is a bit obvious, and the contrast between male and female, English and Igbo, is too broadly drawn. But Adichie excels at the depiction of complicated relationships, familial and romantic: the love between the children and their father is truly vivid, despite his abuse, and even the most conventional subplot—Kambili's first crush, on a young priest—is fresh in Adichie's hands. Most important, the overriding theme feels true not only to contemporary Nigeria (though of course I cannot expertly judge this), but also more generally to human experience: two cultures at war must learn to balance each other out, respectfully and without a hunger for dominance.

Adichie's second novel was a departure. *Half of a Yellow Sun*, which appeared three years ago, is an extraordinary chronicle of the Biafran war, viewed through the households of two sisters, Olanna and Kainene, twins brought up in a privileged family in Lagos. At the start of the book, Olanna is about to come to Nsukka to live (somewhat scandalously) with her boyfriend, a revolutionary professor named Odenigbo; and we see her arrival through the eyes of Ugwu, a village boy who has just started work as Odenigbo's houseboy. (It appears that in Nigeria in the 1960s even revolutionaries had servants.) Kainene, who has assumed the son's traditional role of tending the family business, becomes involved with Richard, a white Englishman who has come to Nigeria to write a book about Igbo pottery. After two coups lead to genocidal violence against the Igbo by the Muslim Hausa, Biafra declares independence, and Adichie's characters devote themselves in different ways to the cause.

The shock of Biafra was, of course, its intra-racial brutality: a civil war only seven years after independence in which blacks were killing other blacks. In an essay called "The African Writer and the Biafran Cause," Achebe declared that "Biafra stands in opposition to the murder and rape of Africa by whites and blacks alike because she has tasted both and found them equally bitter. No government, black or white, has the right to stigmatize and destroy groups of its own citizens without undermining the basis of its own existence." As Adichie's characters witness these atrocities, they undergo a heartbreaking loss of innocence. Olanna, who happens to be visiting her aunt and uncle in the northern Hausa city of Kano when the violence breaks out, is protected by her Muslim ex-boyfriend, but discovers that her relatives were killed by a Hausa man who had been their friend. During her nightmarish journey home, seated on the urine-soaked floor of a train car packed with terrified refugees, she meets a woman who is carrying the severed head of her young daughter in a calabash, her hair still braided in neat plaits. "Do you know," the woman tells her, "it took me so long to plait this hair? She had such thick hair."

The novel gently navigates the era's racial politics, particularly in the character of Richard, the Englishman who, after falling in love with Kainene, learns to speak fluent Igbo and will proudly identify himself as a Biafran. To win the acceptance of the surprised Igbo he encounters, he repeats to them a native proverb: one's brother may come from a different land. He identifies far more with Kainene and her family than with the other English expats, whose racism ranges from latent to blatant. One of the book's most hateful characters is his ex-girlfriend, who threw jealous fits when he talked to white women at parties but did not care if he flirted with black women, whom she did not view as competition. When the violence begins, she says that the Igbo had it coming, "with their being so clannish and uppity and controlling the markets. Very Jewish, really." Richard himself, it turns out at the book's end, is not immune to unconscious racism.

Despite all Richard's efforts, he can never completely eradicate the differences between himself and the native Biafrans—nor, the novel suggests, should he be able to do so. As the war grows particularly bleak, Kainene's friend Colonel Madu encourages Richard to write articles for Western newspapers about

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the situation in Biafra. Richard is at first indignant: "You would not have asked me if I were not white." "Of course I asked because you were white," Madu replies. "They will take what you write more seriously because you are white. Look, the truth is that this is not your war. This is not your cause. Your government will evacuate you in a minute if you ask them to.... If you really want to contribute, this is the way that you can. The world has to know the truth of what is happening, because they simply cannot remain silent while we die." The fact that Biafra is not Richard's war, not his cause, is brought home by his final inability to write his book. "The war isn't my story to tell, really," he says near the end. It will be told by others.

Half of a Yellow Sun—the title comes from the symbol of Biafra, on its flags and army uniforms—is not only a political novel. To be sure, it takes a strong political stance; no one could come away from this book unsure of which side Adichie supports. But its primary focus, which guards it from didacticism, is on the human experience of the war. As Biafra starves—its roads and its ports were blockaded by the British-backed Nigerian army—Olanna is reduced to begging for powdered egg yolk to feed her ailing daughter. Meanwhile, children all around her succumb to kwashiorkor, the disease of protein deficiency whose sufferers are marked by their bloated bellies, pale skin, and reddish hair. We feel Olanna's terror as her little girl's hair falls out in fuzzy tufts as she combs it, and her relief later as her daughter's skin darkens once more. (At the height of the famine, it was reported that five thousand to eight thousand people, most of them children, died every day.)

The book's central drama has nothing to do with the war: it is a story of love (again, romantic and familial), betrayal, and motherhood—a story that could take place almost anywhere. But it is worth remembering that stories of war also can take place anywhere. Contemplating the woman with her daughter's head in the calabash, one character thinks of "the German women who fled Hamburg with the charred bodies of their children stuffed in suitcases, the Rwandan women who pocketed tiny parts of their mauled babies," though he immediately adds that he is "careful not to draw parallels." Such parallels, which inevitably carry a whiff of political motivation, are of little use in ameliorating human suffering. When mothers are carrying around their children's body parts, it is hard for the mind to linger too long over the question of whether they are in Germany, Africa, or anywhere else.

If Adichie takes Achebe as an inspiration, her reworkings of his themes are as much a challenge as a tribute. After all, if she was truly looking for people like herself in his fiction, she must have been disappointed. Achebe's books revolve almost exclusively around male characters—naturally enough, since men are at the center of the tribal social structure. Wives are present, often in multiples, but the male dramas are the primary ones.

In *The Thing Around Your Neck*, by contrast, nearly all the main characters are women. But the setting has changed. Many of the stories focus on recent immigrants—young women who have come to America for different reasons, usually romantic—who must negotiate sexual politics along with cultural politics. The gulf between expectations and realities among these characters is unsurprising: the collision of civilizations has always been a theme of immigrant literature, in the work of writers as disparate as Isaac Bashevis Singer and Monica Ali. But Adichie reveals it in unexpected ways, in a language that preserves the African-ness of her characters while adding their stories to the long history of immigrants in America. In "The Arrangers of Marriage," Chinaza's guardians, her aunt and uncle, have convinced her to marry Ofodile: "A doctor in America. What could be better?" But when she arrives in Brooklyn she discovers how much was elided by mistaken assumptions. Instead of the "house" she pictured, Ofodile lives in a musty apartment; he is still completing his medical education, and works from six in the morning till eight at night. Determined to assimilate, he insists that they both use English names (his is Dave Bell), scolds her for using Anglicisms ("It's an elevator, not a lift"), and forbids her to cook African food. Similarly, in "On Monday of Last Week," Kamara has come to America to join her husband, who left shortly after their wedding six years before. By the time he finally sends for her, she no longer recognizes him: his "ungainly American accent," his hairy toes.

These characters are close enough to American society to observe it well, but distant enough to maintain a mordant and sometimes biting perspective. Kamara, who works as a nanny for a well-to-do American couple, muses on the ridiculous obsessions of the parents: "She had come to understand that American parenting was a juggling of anxieties, and that it came with having too much food: a sated belly gave Americans time to worry that their child might have a rare disease that they had just read about, made them think they had the right to protect their child from disappointment and want and failure. A sated belly gave Americans the luxury of praising themselves for being good parents, as if caring for one's child were the exception rather than the rule." The narrator of the title story, which is written in the second person, sharply notices the way others react upon seeing her with her white boyfriend:

> You knew by people's reactions that you two were abnormal—the way the nasty ones were too nasty and the nice ones too nice. The old white men and women who muttered and glared at him, the black men who shook their heads at you, the black women whose pitying eyes bemoaned your lack of self-esteem, your self-loathing. Or the black women who smiled swift solidarity smiles; the black men who tried too hard to forgive you, saying a too-obvious hi to him; the white men and women who said 'What a good-looking pair' too brightly, too loudly, as though to prove their own open-mindedness to themselves.

The women are all caught in a peculiar bind: no matter how unhappy they know themselves to be, they cannot communicate their despair to their friends and relatives back home. Sometimes it is a matter of guilt. No matter how bad things seem, those left behind have it worse. "Does one throw away a guinea fowl's egg?" Chinaza imagines her aunt shrieking at her. "Do you know how many women would offer both eyes for a doctor in America?" (So what if it turns out that he is already married to a woman who promised him a green card and now refuses to divorce him?) Kamara longs to confide her misery to an old friend, believing that "if she told Chinwe how she did not like her bed but did not want to get up from it in the morning, Chinwe would understand her bewilderment." But when she calls, Chinwe is despondent because her husband has gotten another woman pregnant. Kamara hangs up without confessing her troubles: "she could not complain about not having shoes when the person she was talking to had no legs." It is their unhappiness itself that separates these women from their homeland. They have become American enough to be unsatis-

ANTHONY RUSSO

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

fied with what they thought they wanted.

At the same time, even the most assimilated among them cannot entirely divorce themselves from the Nigerian mores that persist in their new lives. Nkem, the main character in "Imitation," lives in a big house in the Philadelphia suburbs, while retaining an immigrant's appreciation for American superiority: "She really belonged to this country now, this country of curiosities and crudities, this country where you could drive at night and not fear armed robbers, where restaurants served one person enough food for three.... She goes to a Pilates class twice a week in Philadelphia with her neighbor; she bakes cookies for her children's classes and hers are always the favorites; she expects banks to have drive-ins." But her husband lives with her and their children for only two months out of the year. The rest of it he spends in Lagos, tending to his business and likely fooling around behind her back. "You know why they won't move here, even if business were better here?" another Nigerian woman asks her. "Because America does not recognize Big Men. Nobody says 'Sir! Sir!' to them in America. Nobody rushes to dust their seats before they sit down." If they are victims of a culture in which economics, not love, is the decisive factor, the women also are complicit. Nkem remembers that she, too, once dated married men for what they could provide: one paid her father's hospital bills, another fixed her parents' house and bought them furniture. America may have "grown on her, snaked its roots under her skin," but she has other roots as well.

"The Headstrong Historian," the story that concludes this collection, explicitly rewrites Achebe, taking one of the unseen wives in *Things Fall Apart* and putting her at the center. Nwamgba is the wife of Obierika, whom readers of Achebe will remember as the friend of Okonkwo, the book's central character. In contrast to the quiet, docile figures in Achebe's novels, Nwamgba is "sharp-tongued" and "headstrong," once even besting her brother in a wrestling match. After she falls in love with Obierika at first sight while the two are still children, her father permits her to marry him rather than choosing a husband for her based on social status or family alliances, so as "to save himself years of trouble when she would keep returning home after confrontations with in-laws." Obierika, too, flouts custom by refusing to take another wife, even after multiple miscarriages leave Nwamgba barren. At last, after visiting an oracle and performing the required sacrifice, she bears a son, Anikwenwa. Obierika dies soon afterward—murdered, Nwamgba believes, by two jealous cousins who covet his land.

When the first missionary arrives, most of the villagers greet his teachings with bewilderment: "He spoke about their god, who had come to the world to die, and who had a son but no wife, and who was three but also one. Many of the people around Nwamgba laughed loudly. Some walked away, because they had imagined that the white man was full of wisdom." But Nwambga, like the priest in Achebe's *Arrow of God*, realizes that her son can gain an advantage by learning English—then he will be able to take Obierika's cousins to the "white man's court" and take back the land that rightfully belongs to him. She is thrilled when this happens, but less pleased by the other changes in Anikwenwa, who now calls himself Michael: he won't eat her food because it is sacrificed to idols, he instructs her to cover her breasts, and he refuses to participate in the clan initiation ceremony. He goes away to Lagos to become a teacher, and eventually returns to the mission as a catechist. "She looked at him, this man wearing trousers, and a rosary around his neck, and wondered whether she had meddled with his destiny. Was this what his chi had ordained for him, this life in which he was like a person diligently acting a bizarre pantomime?"

Nwamgba is likewise unimpressed by her son's meek wife, but takes pity on her when she has trouble conceiving. Since the Christian couple refuses to visit the oracle, she goes herself and makes the sacrifice, and afterward the woman bears two children. The second is a girl, named Grace by her parents but whom Nwamgba calls Afamefuna, or My Name Will Not Be Lost. The two develop a close bond, and Nwamgba teaches her granddaughter traditional poetry, stories, and pottery. When Nwamgba is dying, Anikwenwa refuses to call his daughter back from secondary school, but she returns of her own accord, "her restless spirit urging her home." In a final wink to Achebe, Adichie writes that Grace is carrying in her backpack an essay called "The Pacification of the Primitive Tribes of Southern Nigeria," written by "an administrator from Worcestershire who had lived among them for seven years."

This "administrator," of course, is the man who appears at the end of *Things Fall Apart*. In the novel's last paragraph, his voice takes over the narrative, dramatizing what would happen to his colonial subjects: their stories, their history, would for decades be told by others, by occupiers who did not understand or appreciate their culture. Who will take it back? asks the silence at the end of Achebe's novel. Adichie here offers an answer:

> It was Grace who would read about these savages, titillated by their curious and meaningless customs, not connecting them to herself until her teacher, Sister Maureen, told her she could not refer to the call-and-response her grandmother had taught her as poetry because primitive tribes did not have poetry.... It was Grace who, as one of the few women at the University College in Ibadan in 1950, would change her degree from chemistry to history after she heard, while drinking tea at the home of a friend, the story of Mr. Gboyega ... a chocolate-skinned Nigerian, educated in London, distinguished expert on the history of the British Empire, [who] had resigned in disgust when the West African Examinations Council began talking of adding African history to the curriculum, because he was appalled that African history would even be considered a subject.... It was Grace who would begin to rethink her own schooling—how lustily she had sung, on Empire Day, "God bless our Gracious King. Send him victorious, happy and glorious. Long to reign over us"; how she had puzzled over words like 'wallpaper' and 'dandelions' in her textbooks, unable to picture those things.... It was Grace who, driving past Agueke on her way back, would become haunted by the image of a destroyed village and would go to London and to Paris and to Onicha, sifting through moldy files in archives, reimagining the lives and smells of her grandmother's world, for the book she would write called *Pacifying With Bullets: A Reclaimed History of Southern Nigeria*.

The language of this story is recognizably Achebe's: the transposition of Igbo expressions and proverbs into English, the dispassionate portrayal of both traditional religion and Christianity. And the message is his as well: the reclamation of African culture from colonialist writers whose texts were predicated on racist assumptions, subtle or blatant, and from an educational system in which children read stories depicting members of their own race as uncultured savages and Europeans as the bearers of wisdom. But Adichie has gone beyond, or away from, Achebe in an important way. Finally she is optimistic. She may have grown up on Enid Blyton, but in her lifetime she has already seen things that fall apart begin to come back together. ◆

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Washington Diarist

Against the Plane

"Does the Magazine have an ideology?" This is the fine question that the editor of *The New York Times Magazine* attempted to answer last week. "At the risk of giving some of my colleagues hives," Gerald Marzorati wrote online, "I think it does." Good! A dissent, and a promise of seriousness. And then there followed this, which historians of culture may one day find useful:

> Call it Urban Modern. That is, I think it reflects not a left-or-right POLITICAL ideology but a geographical one, the mentality of the place [sic] it is created: 21st Century Manhattan. So: the Magazine reflects a place where women have professional ambition, where immigrants are welcome, and where gays and lesbians can be themselves (if not marry, yet). The Magazine also reflects a place where being rich is not a bad thing, where fashion is not a sign of superficiality, and where individualism is embraced. Here, arguing is not bad manners. Here, a chief way of loving your hometown is criticizing it: For, say, not doing enough for those (children, the poor, the homeless) who are most vulnerable. Here, art is never spoken of in moral terms, and most aspects of everyday life—food and drink and bathroom fixtures—are mostly spoken of in aesthetic terms. And here, as E.B. White famously wrote, it tends to be those who come from elsewhere full of longing who make the place what it is. More generally, we reflect a place where change is not a threat, where doubt and complexity are more TRUE than certainty, and where most everything non-criminal is tolerated—except a bad haircut.

No dissent, then, and no seriousness. This anthropological jewel (which is an injustice to some of the magazine's writers and editors) represents instead a flight from both. Urban Modern? That is not ideology, it is interior design. Marzorati's credo is yet another expression of the adoration of Manhattan by Manhattan, though he does neglect to mention that if you can make it there you can make it anywhere; and it is also more *Times* happy talk about itself. (The good cheer of the paper's managers is beginning to sound a little psychotic.) More interestingly, what is being celebrated here is the ideology of no ideology—the ascendancy of the Nora Ephron view of the world, which may be succinctly described as "food and drink and bathroom fixtures." What moves such a heart most (aside from children, the poor, and the homeless) are amenities and trivialities. The conferring of importance upon the unimportant, and of unimportance upon the important: this is a mark of decadence, the cognitive inversion of people who live "mostly in aesthetic terms" because they have secured themselves materially—or so they would like to believe—against philosophy and pain. They live for lightness and distraction. Their laughter is the sound of luck. They acquit themselves of their intellectual obligations with opinions. The anxiety that arguing may be bad manners is plausibly held by someone whose primary arena of political action may be the dinner party. (*Darling, were we wrong about Obama?)* And fashion, a sign of superficiality? Never! I saw how Malvin poured his soul into his hen-like maternity design. It was WRENCHING. Perhaps I am mistaking Manhattan for its media, which is of course a common Manhattan mistake; but neither the reality nor the representation seems able to acknowledge, for example, that Anna Wintour is the most boring person on earth.

I understand that *The New York Times Magazine* is not *Mind*, and it is certainly less pornographic about luxury than it used to be, though this may have more to do with budgets than with sensibilities; but all this jolly vacuity, this strident insistence upon silliness, this elevation of little things into big things, this insouciant defense of slackening (how else defend it?), gets me down. The pleasure of little things is owed in part to their littleness: ruin the scale and you ruin the experience. Real aesthetes know this. Marzorati's manifesto has a quality of release about it, as if he has been given permission, and is passing the permission along, to free himself from an old ranking of values, from what used to matter but does no more. He is not alone in his feeling of relief. It is one of the characteristics of American culture now. It is sometimes mistaken for a freshness of perspective, a new critical standpoint, but there is nothing fresh about easing up and it is the antithesis of criticism, or the kind of criticism that discomfits powers and platitudes. For instance: when Marzorati jauntily protests that in Manhattan being rich is not a bad thing, it has the effect of concealing that in Manhattan being poor is a bad thing. That is how high spirits work in hard times. And what is so terrifying about seriousness, anyway? I like to think of it as nothing more than proof of consciousness. Happy is the man whose worst misfortune is a bad haircut, but no such man lives. There is only so much trivialization that a mind can withstand before it loses its capacity for judgment, its existential competence. Does Marzorati believe that America is suffering from a surfeit of seriousness? Is he fearful about the fate of fun? But it is possible, I swear, to be heavy and hilarious. Urban Modern is neither.

Why would one wish to be so completely saturated in one's own society, so thoroughly absorbed into one's own setting? In a small room at the National Gallery the other day, I had a lesson in the principle of standing out. Both of Tullio Lombardo's uncanny double-portrait busts of mysterious and beautiful young people, a man and a woman, are there. The marble is carved in excitingly high relief—so high that, in the one called simply "A Couple," from around 1495, the necks are completely extracted from the ground, and light sneaks through some of the man's wild curls. The figures seem almost to be free-standing, but of course they are not. They are merely asserting the greatest degree of autonomy consistent with what they are. The work is an unforgettable emblem of separation without severance. About this masterpiece, the catalog nicely observes that the figures "seem to strain against the plane from which they emerge." One *should* strain against the plane. We can do better, and be more, than low relief. The strain against the plane is one of the supreme achievements of the spirit, the one we call detachment.

Leon Wieseltier

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

You deserve a factual look at . . .

Mr. Netanyahu's Offer (II)

Are the objections of the Palestinians justified?

In our previous *hasbarah message* (#117, **"Mr. Netanyahu's Offer [I]"**), we told of the Netanyahu's government's willingness to allow a Palestinian state to arise alongside Israel in Judea/Samaria (the "West Bank") and in Gaza. Not surprisingly, he attached certain conditions to this offer, all of which the Palestinians totally rejected. The objections that we discussed previously referred to the "settlements," the demilitarization of the new state, and the "return of the refugees."

What are the facts?

In addition to those conditions mentioned above, Mr. Netanyahu's offer of a state for the Palestinians in the "West Bank" and in Gaza included two further requirements: One, that Jerusalem remain the undivided capital of Israel and two, that the Arabs recognize Israel to be the Jewish state.

An Undivided Jerusalem. Before the end of the 1967 Six-Day War, during which the Israel defense forces reconquered Jerusalem from the Jordanians, claims to Jerusalem being a Muslim city were rarely if ever asserted. Jerusalem had always been a city in which many religions and nationalities lived side-by-side. It was only after the old city was back in Jewish hands that the Muslim Arabs declared their desire to wage "jihad" (holy war) to bring the city into Arab possession.

The notion to call Jerusalem an Islamic holy city has only come about in modern times, especially after the Arabs lost the city to Israel in the Six-Day War. It has now gained currency by dint of constant repetition. Basis of the claim is that Jerusalem does indeed contain an Islamic holy site, the Temple Mount, sacred to both Muslims and Jews. But Jerusalem has for centuries been the capital of the Jewish people and has been the capital of Israel since its founding. It is mentioned hundreds of times in the Bible. There is not a single mention of it in the Koran.

Israel is the State of the Jews. Mr. Netanyahu insists that Israel be recognized as the Jewish state. But such recognition is obviously only a formality. Israel was established as the Jewish state by the Balfour Declaration, by the League of Nations, by the United Nations, by the consensus of the world, and by the facts on the ground. The reason that the Muslims do not wish to recognize Israel as a Jewish state is that it would supposedly prejudice the rights of the Muslims and perhaps members of other religions who live in Israel. But that is nonsense. Regardless of what it is called, everybody understands that Israel is indeed the State of the Jews, and so do the over 1 million (approximately 20% of Israel's population) Muslims that live in Israel as full citizens, with all the rights and privileges of their Jewish fellow citizens. Nobody seems to object that, for instance, Iran designates itself as an "Islamic Republic." For the Muslim world to recognize Israel as the State of the Jews would simply be recognizing reality.

> "Here is another chance for the Palestinians to have their own country... Chances are overwhelming that, once again, they will reject the outstretched hand...."

It has to be clear to every student of modern history that the Palestinians, if that were their real goal, could have had their own state since at least 1937, following the Peel Report. There have been many opportunities since. The most important of those was the 1948 decision of the United Nations to partition the country west of the Jordan River into a Muslim and a Jewish state. The Jews eagerly accepted the proposal, which the Arabs utterly rejected and instead invaded the nascent state of Israel with the armies of five of their countries. There have been many other opportunities since, all of which the Muslims have rejected. One must come to the unhappy conclusion that to create a state is not the ultimate goal of the Palestinians. The ultimate goal always has been and continues to be the destruction of the state of Israel.

Mr. Netanyahu's offer of allowing a Palestinian state to be created and to exist along Israel is a most generous offer. No parallel can be found in the annals of world history. It is abundantly clear that the "conditions" accompanying Mr. Netanyahu's offer are more than reasonable. Surely, after decades of open hostilities and the recent bitter example of Gaza, it should go without saying that the newly formed state should be totally and reliably demilitarized. It should be clear that the "settlements" – about 300,000 Jews in a sea of over 3 million Arabs – cannot be an obstacle to peace, since the over 1 million Arabs living in Israel are not considered a problem. It should be clear that the "refugees," which have swelled from the original 650,000 to allegedly more than 5 million, should be settled in the newly to be formed state of Palestine.

Jerusalem has been the center of Jewish life and Jewish yearning for over 3,000 years. There is no reason why it should not remain the undivided capital of Israel. And, of course, Israel is a Jewish state. Everybody understands that, whether the Muslims do or do not wish to accept it. Here is another chance for the Palestinians to have their own country and to live in peace and in prosperity alongside Israel. But chances are overwhelming that, once again, they will reject the outstretched hand that is being offered.

This message has been published and paid for by

FLAME

Facts and Logic About the Middle East
P.O. Box 590359 ■ San Francisco, CA 94159
Gerardo Joffe, President

FLAME is a tax-exempt, non-profit educational 501 (c)(3) organization. Its purpose is the research and publication of the facts regarding developments in the Middle East and exposing false propaganda that might harm the interests of the United States and its allies in that area of the world. Your tax-deductible contributions are welcome. They enable us to pursue these goals and to publish these messages in national newspapers and magazines. We have virtually no overhead. Almost all of our revenue pays for our educational work, for these clarifying messages, and for related direct mail.

To receive free FLAME updates, visit our website: www.factsandlogic.org

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

U.S. FINANCIAL MARKETS SUFFER FROM

REGULATORY GAPS

OUTDATED POLICIES

INCONSISENT REGULATION

CHECK-BOX MENTALITY

INEFFICIENT PROCEDURES

OPAQUE POLICY DEVELOPMENTS

JURISDICTIONAL STALE-MATES

IT'S TIME FOR REGULATORY REFORM

CONSISTENT AND COMPREHENSIVE

COMPLIANCE-FOCUSED AND PROACTIVE

RISK-BASED AND RESULTS-ORIENTED

www.ise.com/regulatoryreform

ISE INTERNATIONAL SECURITIES EXCHANGE

STARTING THE CONVERSATION FOR THE FUTURE

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED